

Office of the  
Legislative Fiscal Analyst

## **FY 2001 Budget Recommendations**

Joint Appropriations Subcommittee for  
Commerce and Revenue

### **Utah State Retirement Systems And Group Insurance**

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### 1.0 Utah State Retirement Systems

**Purpose**

The 1996 Legislature passed House Bill 156, now Utah Code 49-1-201 through 204. Passage of this bill clarified the independent status of the Utah State Retirement Office. While legislative examination and comment on the budget should continue, actual voting on the budget and inclusion in an Appropriation Act is not required.

The Utah State Retirement Office is an independent state agency, similar to other independent state agencies such as Workers Compensation and the Utah Housing Finance Agency, which are reviewed by appropriation subcommittees.

**Department Mission Statement**

The mission of Utah Retirement Systems is to provide financially sound retirement and 401(k)/457 investment benefits, as well as comprehensive health and dental, disability, and life insurance benefits to active and retired Utah public employees and their beneficiaries.

	<b>Analyst FY 2001 Base</b>	<b>Analyst FY 2001 Changes</b>	<b>Analyst FY 2001 Total</b>
<b>Financing</b>			
Dedicated Credits	\$9,768,000	\$22,000	\$9,790,000
Investment Earnings	33,644,800	2,065,100	35,709,900
<b>Total</b>	<b>\$43,412,800</b>	<b>\$2,087,100</b>	<b>\$45,499,900</b>
<b>Programs</b>			
Retirement Support Services	\$11,583,400	\$90,600	\$11,674,000
Retirement Investments	20,641,700	1,969,600	22,611,300
Retirement Benefit Services	1,419,700	4,900	1,424,600
Group Insurance	9,768,000	22,000	9,790,000
<b>Total</b>	<b>\$43,412,800</b>	<b>\$2,087,100</b>	<b>\$45,499,900</b>
<b>Standard FTE</b>	<b>261.00</b>	<b>0.00</b>	<b>261.00</b>
<b>Expansion FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## **2.0 Budget Highlights: Utah Retirement Systems**

### **2.1 Primary Budget Increase**

The net budget increase for the Retirement Office is \$2,065,100. This is a 4.76 percent increase. Of this amount, \$1,970,000 or 95.4 percent of the increase is for Investment Advisor Fees and Security Handling Fees. Though this seems like a large increase, the administrative expense is kept within the historical range. The fees are based on a percentage of investments. The investments have increased significantly over the last couple of years. The major budget increase last year was this same item. The amount is directly proportional to how well the investment portfolio is performing.

### **2.2 Increased Number of FTE's for Public Employees Health Program (PEHP)**

The number of FTE for PEHP has grown significantly over the last two years. The growth in the number of FTE has been a result of new programs managed by PEHP. PEHP now processes the claims for the State Children's Health Insurance Program (CHIP) and manages the State Flexible Reimbursement Program (FLEX). They have added several public school districts and two institutions of higher education (Dixie College and the College of Eastern Utah) as clients for health and dental insurance. Other clients have also added to an increased workload. The added FTE have not increased the expense ratio.

**3.1 Programs: Utah Retirement Systems – Support Systems**

**Recommendation** The budget request is for \$11,583,400. The budget adjustment requested is \$90,600. The major new items being funded are data processing equipment, attorney fees, and consulting fees. There have been some savings through data processing production.

<b>Financing</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>	<b>Difference</b>
Investment Earnings	\$10,949,900	\$11,583,400	\$11,583,400	\$0
<b>TOTAL</b>	<b>\$10,949,900</b>	<b>\$11,583,400</b>	<b>\$11,583,400</b>	<b>\$0</b>
% Change		5.8%	0.0%	
<b>Expenditures</b>				
Personal Services	\$6,283,200	\$6,680,100	\$6,680,100	\$0
Travel	71,600	102,300	102,300	0
Current Expense	2,908,700	3,284,800	3,284,800	0
Data Processing	995,800	919,500	919,500	0
DP Capital	593,800	472,700	472,700	0
Capital Outlay	96,800	124,000	124,000	0
<b>TOTAL</b>	<b>\$10,949,900</b>	<b>\$11,583,400</b>	<b>\$11,583,400</b>	<b>\$0</b>
% Change		5.8%	0.0%	
Standard FTE	109.00	109.00	109.00	0.00
Enhancement FTE				

**Purpose** Support Services includes the basic management, clerical accounting and data processing staff for the Retirement Office, as well as the management of the deferred compensation accounts.

**Performance Measures** None are reported for this program area.

**3.2 Program: Utah Retirement Systems - Investments**

**Recommendation** Funding for this area is for asset and contract management. The funding of \$20,641,700 is from Investment Earnings. The Current Expense account pays for the investment advisor fees. The largest portion of the retirement increase will go to this budget. An increase of \$1,970,000 has been approved by the Retirement Board.

<b>Financing</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>	<b>Difference</b>
Investment Earnings	\$18,909,000	\$20,641,700	\$20,641,700	\$0
<b>TOTAL</b>	<b>\$18,909,000</b>	<b>\$20,641,700</b>	<b>\$20,641,700</b>	<b>\$0</b>
% Change		9.2%	0.0%	0.0%
<b>Expenditures</b>				
Personal Services	\$789,300	\$744,300	\$744,300	\$0
Travel	17,900	22,300	22,300	0
Current Expense	18,101,800	19,875,100	19,875,100	0
<b>TOTAL</b>	<b>\$18,909,000</b>	<b>\$20,641,700</b>	<b>\$20,641,700</b>	<b>\$0</b>
% Change		9.2%	0.0%	
Standard FTE	10.00	9.00	9.00	0.00
Enhancement FTE				

**Purpose** The investments program is responsible for the investment of the Retirement Trust Fund. The current policy of the Retirement Board dictates certain allocation targets for asset mix and expected returns. Asset mix is spread between equities, fixed income, and real estate.

**Performance Measures** The market has been doing well the last couple of years. Reported averages include 1995 which did not do as well. This has been made up with subsequent investments.

Administrative Expense as a percent of the portfolio value has decreased slightly for FY 1999. It rose slightly in FY 1998. The shifts the last couple of years have not been significant and comparables with other systems are not available, thus precluding an opinion to the acceptability of this relationship.

<b>Performance Measure</b>	<b>FY 1995 Actual</b>	<b>FY 1996 Actual</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>
Portfolio Market Value *	\$7,504,000,000	\$8,669,000,000	\$10,166,000,000	\$11,206,000,000	\$13,057,000,000
Expenses As % of Value	0.28%	0.26%	0.24%	0.26%	0.25%
<b>Membership **</b>					
Active / Term. Vested	95,345	97,969	100,474	105,920	110,955
Retired	23,802	24,863	26,190	26,945	28,235
Total	119,147	122,832	126,664	132,865	139,190
Percent Inc (Dec)	3.46%	3.09%	3.12%	4.90%	4.76%
Admin Cost per member (w/o Investment Adv.&cap outlay)	\$76.01	\$85.53	\$90.47	\$85.81	\$89.06
Percent Inc (Dec)	(6.15%)	12.52%	5.78%	(5.15%)	3.79%
* 1999 Market Value is as of Dec. 30, 1999. It is also noted that budgets are reflected as fiscal year, but market values are based on calendar year.					

**3.3 Program: Utah Retirement Systems – Benefit Services**

**Recommendation** The budget listed is \$1,419,700. Funding is from investment earnings. The adjustment recommended by their Board is a net \$4,900. No other additions or FTE are requested.

	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	
<b>Financing</b>	<b>Actual</b>	<b>Estimated</b>	<b>Analyst</b>	<b>Difference</b>
Investment Earnings	\$1,251,400	\$1,419,700	\$1,419,700	\$0
<b>TOTAL</b>	<b>\$1,251,400</b>	<b>\$1,419,700</b>	<b>\$1,419,700</b>	<b>\$0</b>
% Change		13.4%	0.0%	
<b>Expenditures</b>				
Personal Services	\$932,400	\$977,500	\$977,500	\$0
Travel	11,200	16,200	16,200	0
Current Expense	278,800	396,800	396,800	0
Data Processing	29,000	29,200	29,200	0
<b>TOTAL</b>	<b>\$1,251,400</b>	<b>\$1,419,700</b>	<b>\$1,419,700</b>	<b>\$0</b>
% Change		13.4%	0.0%	
Standard FTE	16.00	16.00	16.00	0.00
Enhancement FTE				0.00

**Purpose** Benefit Services provides consultative services to retirees in their retirement program, as well as general consultation for all members of the Retirement System.



**3.4 Program: Utah Retirement Systems – Group Insurance (PEHP)**

**Recommendation** The planned budget for PEHP is \$9,768,000. The funding is from Dedicated Credits with are generated through premiums. An increase of \$22,000 has been requested. This is a net amount. They anticipate savings from data processing and a reduction in capital outlay.

<b>Financing</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>	<b>Difference</b>
Dedicated Credits	\$8,147,700	\$9,768,000	\$9,768,000	\$0
<b>TOTAL</b>	<b>\$8,147,700</b>	<b>\$9,768,000</b>	<b>\$9,768,000</b>	<b>\$0</b>
% Change		19.9%	0.0%	
<b>Expenditures</b>				
Personal Services	\$4,617,800	\$5,959,900	\$5,959,900	\$0
Travel	26,800	49,300	49,300	0
Current Expense	2,771,800	3,086,700	3,086,700	0
Data Processing	95,600	245,100	245,100	0
DP Capital Outlay	469,100	205,000	205,000	0
Capital Outlay	166,600	222,000	222,000	0
<b>TOTAL</b>	<b>\$8,147,700</b>	<b>\$9,768,000</b>	<b>\$9,768,000</b>	<b>\$0</b>
% Change		19.9%	0.0%	
Standard FTE	103.00	127.00	127.00	0.00
Enhancement FTE				0.00

**Purpose** The Group Insurance Office administers the health and life insurance programs provided for State and local government employees. Duties assigned to the Division include the collection of payroll deductions and leave without pay remittances, claims processing and payment, public relations, and verification of eligibility and enrollments. Starting in Calendar Year 1999, PEHP administers the Flexible Reimbursement Program (FLEX) for the State.

Group Insurance leases building space from the Retirement Office at \$16.50 per square foot.

The Public Employee Health Program is not subject to Utah State Insurance code, but has traditionally followed its provisions. This is an issue with every health insurance related bill that comes before the Legislature.

**Performance Measures** The chart below illustrates a few of the key performance measures.

	<b>FY 1995 Actual</b>	<b>FY 1996 Actual</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Budget</b>	<b>FY 2000 Budget</b>
Total Premiums *	\$138,310,000	\$157,408,000	\$168,764,000	\$180,746,000	\$188,000,000	\$194,000,000
% Admin to Premiums	3.46%	3.24%	3.17%	3.53%	4.28%	4.09%
No. of claims processed:*						
Medical / Dental	799,000	947,000	967,000	974,000	1,021,000	1,070,200
Admin cost per claim	5.99	5.39	5.53	6.55	7.88	7.41
Membership *						
Medical	97,000	99,000	105,000	104,000	116,000	123,000
Dental	73,000	75,000	80,000	93,000	103,000	115,000
Total	170,000	174,000	185,000	197,000	219,000	238,000
Admin cost per member	\$28.14	\$29.35	\$28.91	\$32.27	\$36.74	\$33.30
Admin cost per member (w/o capital outlay)	\$27.01	\$27.36	\$26.16	\$31.61	\$34.87	\$31.86
* 2000 are projected numbers						

Administrative cost per member has also remained relatively flat, with and without capital outlay included. While it is positive that major increases have not taken place, it might be expected that more economies would be achieved as the number of members increases. It would appear the FY 1999 and FY 2000 budgets do project a slight decrease in this cost.

The cost of health and dental increases were subsidized for FY 1999 and FY 2000 through company reserves. A request has been made for an ongoing increase for health and dental premiums for FY 2001.

**4.0 Additional Information: Utah Retirement Systems**

**4.1 Funding History**

<b>Programs</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>
Retirement Support Services	\$8,230,400	\$8,917,200	\$10,949,900	\$11,583,400	\$11,674,000
Retirement Investments	13,921,700	18,554,900	18,909,000	20,641,700	22,611,300
Retirement Benefit Services	2,180,500	1,985,500	1,251,400	1,419,700	1,424,600
Group Insurance	5,348,700	6,376,400	8,147,700	9,768,000	9,790,000
<b>TOTAL</b>	<b>\$29,681,300</b>	<b>\$35,834,000</b>	<b>\$39,258,000</b>	<b>\$43,412,800</b>	<b>\$45,499,900</b>
% Change	6.1%	20.7%	9.6%	10.6%	4.8%
<b>Financing</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>
Dedicated Credits	\$5,348,700	\$6,376,400	\$8,147,700	\$9,768,000	\$9,790,000
Investment Earnings	24,332,600	29,457,600	31,110,300	33,644,800	35,709,900
<b>TOTAL</b>	<b>\$29,681,300</b>	<b>\$35,834,000</b>	<b>\$39,258,000</b>	<b>\$43,412,800</b>	<b>\$45,499,900</b>
% Change	6.1%	20.7%	9.6%	10.6%	4.8%
<b>Expenditures</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimated</b>	<b>FY 2001 Analyst</b>
Personal Services	\$9,566,500	\$11,035,500	\$12,622,700	\$14,361,800	\$14,292,100
Travel	135,500	130,900	127,500	190,100	195,800
Current Expense	17,558,000	23,134,000	24,061,100	26,643,400	29,053,000
Data Processing	707,700	959,900	1,120,400	1,193,800	1,030,400
DP Capital	1,502,500	515,000	1,062,900	677,700	704,600
Capital Outlay	211,100	58,700	263,400	346,000	224,000
<b>TOTAL</b>	<b>\$29,681,300</b>	<b>\$35,834,000</b>	<b>\$39,258,000</b>	<b>\$43,412,800</b>	<b>\$45,499,900</b>
% Change	6.1%	20.7%	9.6%	10.6%	4.8%
Standard FTE		219.25	238.00	261.00	261.00