

Representative Lee B. Perry proposes the following substitute bill:

PUBLIC SAFETY AND FIREFIGHTER TIER II

RETIREMENT ENHANCEMENTS

2019 GENERAL SESSION

STATE OF UTAH

Chief Sponsor: Wayne A. Harper

House Sponsor: Lee B. Perry

LONG TITLE

General Description:

This bill modifies provisions relating to the New Public Safety and Firefighter Tier II Contributory Retirement System by enhancing certain retirement benefits.

Highlighted Provisions:

This bill:

- ▶ increases the percentage of compensation that a participating employer shall pay to the office on behalf of a member for the defined benefit portion of the New Public Safety and Firefighter Tier II Contributory Retirement System;

- ▶ increases the amount of the nonelective contribution made by a participating employer on behalf of each public safety service employee or fighter service employee who is a member of the New Public Safety and Firefighter Tier II Contributory Retirement System;

- ▶ increases the multiplier percentage for the calculation of the retirement allowance of a participant in the New Public Safety and Firefighter Tier II hybrid retirement system for certain years;

- ▶ instructs the Retirement and Independent Entities Interim Committee to carry out an uncodified study; and



26 ▶ makes technical changes.

27 **Money Appropriated in this Bill:**

28 This bill appropriates in fiscal year 2020:

29 ▶ to the Utah State Retirement Office -- New Public Safety and Firefighter Tier II

30 Retirement System, as a one-time appropriation:

- 31 • from the General Fund, One-time, \$5,300,000.

32 **Other Special Clauses:**

33 This bill provides a special effective date.

34 **Utah Code Sections Affected:**

35 AMENDS:

36 **49-22-310**, as enacted by Laws of Utah 2011, Chapter 439

37 **49-23-301**, as last amended by Laws of Utah 2016, Chapter 84

38 **49-23-302**, as last amended by Laws of Utah 2016, Chapter 227

39 **49-23-304**, as last amended by Laws of Utah 2017, Chapter 141

40 **49-23-401**, as last amended by Laws of Utah 2016, Chapter 227

41 **Uncodified Material Affected:**

42 ENACTS UNCODIFIED MATERIAL



44 *Be it enacted by the Legislature of the state of Utah:*

45 Section 1. Section **49-22-310** is amended to read:

46 **49-22-310. Defined benefit adjustments -- Conditions -- Process -- Future years**
47 **accrual.**

48 (1) In accordance with this section and except as provided in Subsection
49 **49-23-301(7)(b)**, the Legislature may make adjustments to the benefits provided for the defined
50 benefit portion of the Tier II Hybrid Retirement System created under this part if the member's
51 contribution required under Subsection **49-22-301(2)(b)** to the certified contribution rate for the
52 defined benefit portion of this system exceeds 2% of the member's salary and:

53 (a) (i) the membership council created under Section **49-11-202** recommends an
54 adjustment to the board in accordance with Subsection (2); and

55 (ii) the board recommends specific adjustments to the Legislature in accordance with
56 Subsection (2); or

57 (b) an actuarial study that conforms with generally accepted actuarial principles and
58 practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board
59 and requested or commissioned by the board or the Legislature concludes:

- 60 (i) there is a significant likelihood that contribution rates will continue to rise; and
- 61 (ii) that participating employers are liable for system costs above the contribution rate
62 established under Subsection 49-22-301(2)(a).

63 (2) If the conditions under Subsection (1)(a) or (b) are met, the Legislature may adjust
64 benefits for the defined benefit portion of the Tier II Hybrid Retirement System accrued or
65 applied for future years of service including:

- 66 (a) the final average salary calculation provided under Section 49-22-102;
- 67 (b) the years of service required to be eligible to receive a retirement allowance under
68 Section 49-22-304;
- 69 (c) the years of service credit multiplier established under Subsection 49-22-305(2)(a);
- 70 (d) the annual cost-of-living adjustment under Section 49-22-308; or
- 71 (e) other provisions of the defined benefit portion of the Tier II Hybrid Retirement
72 System.

73 (3) (a) Notwithstanding the provisions of Subsections (1) and (2), the Legislature may
74 make adjustments to the benefits provided for the defined benefit portion of the Tier II Hybrid
75 Retirement System created under this part if an actuarial study described under Subsection
76 (1)(b) concludes, due to current and projected economic conditions, member participation
77 levels, and system structure, that the system:

- 78 (i) cannot reasonably be sustained under its current provisions;
- 79 (ii) is critically underfunded; and
- 80 (iii) has become unstable and is in risk of collapse.

81 (b) Subject to federal law, the adjustments under Subsection (3)(a) may include:

- 82 (i) conversion to a different type of retirement plan;
- 83 (ii) equitable distribution of system assets to retirees and members; and
- 84 (iii) a closure of the system.

85 Section 2. Section 49-23-301 is amended to read:

86 **49-23-301. Contributions.**

87 (1) Participating employers and members shall pay the certified contribution rates to

88 the office to maintain the defined benefit portion of this system on a financially and actuarially
89 sound basis in accordance with Subsection (2).

90 (2) (a) A participating employer shall pay up to [~~12%~~] 14% of compensation toward
91 the certified contribution rate to the office for the defined benefit portion of this system.

92 (b) A member shall only pay to the office the amount, if any, of the certified
93 contribution rate for the defined benefit portion of this system that exceeds the percent of
94 compensation paid by the participating employer under Subsection (2)(a).

95 (c) In addition to the percent specified under Subsection (2)(a), the participating
96 employer shall pay the corresponding Tier I system amortization rate of the employee's
97 compensation to the office to be applied to the employer's corresponding Tier I system liability.

98 (3) A participating employer may ~~not~~ elect to pay all or part of the required
98a member
99 contributions under Subsection (2)(b), in addition to the required participating employer
100 contributions.

101 (4) (a) A member contribution is credited by the office to the account of the individual
102 member.

103 (b) This amount, together with refund interest, is held in trust for the payment of
104 benefits to the member or the member's beneficiaries.

105 (c) A member contribution is vested and nonforfeitable.

106 (5) (a) Each member is considered to consent to payroll deductions of member
107 contributions.

108 (b) The payment of compensation less these payroll deductions is considered full
109 payment for services rendered by the member.

110 (6) Except as provided under Subsection (7), benefits provided under the defined
111 benefit portion of the Tier II hybrid retirement system created under this part:

112 (a) may not be increased unless the actuarial funded ratios of all systems under this title
113 reach 100%; and

114 (b) may be decreased only in accordance with the provisions of Section [49-23-309](#).

115 (7) (a) The Legislature authorizes an increase to the death benefit provided to a Tier II
116 public safety service employee or firefighter member's surviving spouse effective on May 12,
117 2015, as provided in Section [49-23-503](#).

118 (b) (i) The Legislature authorizes an increase to the multiplier for the calculation of the

119 retirement allowance provided to a member of the New Public Safety and Firefighter Tier II
120 hybrid retirement system effective July 1, 2019, as provided in Section 49-23-304.

121 (ii) The requirements of Section 49-22-310 do not apply to the benefit adjustment
122 described in Subsection (7)(b).

123 Section 3. Section 49-23-302 is amended to read:

124 **49-23-302. Defined contribution benefit established -- Contribution by employer**
125 **and employee -- Vesting of contributions -- Plans to be separate -- Tax-qualified status of**
126 **plans.**

127 (1) (a) A participating employer shall make a nonelective contribution on behalf of
128 each public safety service employee or firefighter service employee who is a member of this
129 system in an amount equal to [~~12%~~] 14% minus the contribution rate paid by the employer
130 under Subsection 49-23-301(2)(a) of the member's compensation to a defined contribution plan
131 qualified under Section 401(k) of the Internal Revenue Code which:

132 (i) is sponsored by the board; and

133 (ii) has been grandfathered under Section 1116 of the Federal Tax Reform Act of 1986.

134 (b) The member may make voluntary deferrals to:

135 (i) the qualified 401(k) plan which receives the employer contribution described in this
136 Subsection (1); or

137 (ii) at the member's option, another defined contribution plan established by the
138 participating employer.

139 (2) (a) The total amount contributed by the participating employer under Subsection
140 (1)(a), including associated investment gains and losses, vests to the member upon accruing
141 four years of service credit under this title.

142 (b) The total amount contributed by the member under Subsection (1)(b) vests to the
143 member's benefit immediately and is nonforfeitable.

144 (c) (i) Years of service credit under Subsection (2)(a) includes any fraction of a year to
145 which the member may be entitled.

146 (ii) At the time of vesting, if a member's years of service credit is within one-tenth of
147 one year of the total years required for vesting, the member shall be considered to have the total
148 years of service credit required for vesting.

149 (3) (a) Contributions made by a participating employer under Subsection (1)(a) shall be

150 invested in a default option selected by the board until the member is vested in accordance with
151 Subsection (2)(a).

152 (b) A member may direct the investment of contributions made by a participating
153 employer under Subsection (1)(a) only after the contributions have vested in accordance with
154 Subsection (2)(a).

155 (c) A member may direct the investment of contributions made by the member under
156 Subsection (1)(b).

157 (4) No loans shall be available from contributions made by a participating employer
158 under Subsection (1)(a).

159 (5) No hardship distributions shall be available from contributions made by a
160 participating employer under Subsection (1)(a).

161 (6) (a) Except as provided in Subsection (6)(b), if a member terminates employment
162 with a participating employer prior to the vesting period described in Subsection (2)(a), all
163 contributions, including associated investment gains and losses, made by a participating
164 employer on behalf of the member under Subsection (1)(a) are subject to forfeiture.

165 (b) If a member who terminates employment with a participating employer prior to the
166 vesting period described in Subsection (2)(a) subsequently enters employment with the same or
167 another participating employer within 10 years of the termination date of the previous
168 employment:

169 (i) all contributions made by the previous participating employer on behalf of the
170 member, including associated investment gains and losses, shall be reinstated upon the
171 member's employment as a regular full-time employee; and

172 (ii) the length of time that the member worked with the previous employer shall be
173 included in determining whether the member has completed the vesting period under
174 Subsection (2)(a).

175 (c) The office shall establish a forfeiture account and shall specify the uses of the
176 forfeiture account, which may include an offset against administrative costs or employer
177 contributions made under this section.

178 (7) The office may request from any other qualified 401(k) plan under Subsection (1)
179 or (2) any relevant information pertaining to the maintenance of its tax qualification under the
180 Internal Revenue Code.

181 (8) The office may take any action which in its judgment is necessary to maintain the
182 tax-qualified status of its 401(k) defined contribution plan under federal law.

183 Section 4. Section **49-23-304** is amended to read:

184 **49-23-304. Defined benefit service retirement plans -- Calculation of retirement**
185 **allowance -- Social security limitations.**

186 (1) (a) The retirees of this system may choose from the six retirement options described
187 in this section.

188 (b) Options Two, Three, Four, Five, and Six are modifications of the Option One
189 calculation.

190 (2) The Option One benefit is an annual allowance calculated as follows:

191 (a) If the retiree is at least 65 years of age or has accrued at least 25 years of service
192 credit, the allowance is an amount equal to:

193 (i) 1.5% of the retiree's final average salary multiplied by the number of years of
194 service credit accrued on and after July 1, 2011[-], but before July 1, 2019; plus

195 (ii) 2% of the retiree's final average salary multiplied by the number of years of service
196 credit accrued on and after July 1, 2019.

197 (b) If the retiree is less than 65 years of age, the allowance shall be reduced by the full
198 actuarial amount for each year of retirement from age 60 to age 65, unless the member has 25
199 or more years of accrued credit in which event no reduction is made to the allowance.

200 (c) (i) Years of service includes any fractions of years of service to which the retiree
201 may be entitled.

202 (ii) At the time of retirement, if a retiree's combined years of actual, not purchased,
203 service credit is within 1/10 of one year of the total years of service credit required for
204 retirement, the retiree shall be considered to have the total years of service credit required for
205 retirement.

206 (d) An Option One allowance is only payable to the member during the member's
207 lifetime.

208 (3) The allowance payable under Options Two, Three, Four, Five, and Six is calculated
209 by reducing an Option One benefit based on actuarial computations to provide the following:

210 (a) Option Two is a reduced allowance paid to and throughout the lifetime of the
211 retiree, and, if the retiree receives less in annuity payments than the amount of the retiree's

212 member contributions, the remaining balance of the retiree's member contributions shall be
213 paid in accordance with Sections 49-11-609 and 49-11-610.

214 (b) Option Three is a reduced allowance paid to and throughout the lifetime of the
215 retiree, and, upon the death of the retiree, the same reduced allowance is paid to and throughout
216 the lifetime of the retiree's lawful spouse at the time of retirement.

217 (c) Option Four is a reduced allowance paid to and throughout the lifetime of the
218 retiree, and upon the death of the retiree, an amount equal to 1/2 of the retiree's allowance is
219 paid to and throughout the lifetime of the retiree's lawful spouse at the time of retirement.

220 (d) Option Five is a modification of Option Three so that if the lawful spouse at the
221 time of retirement predeceases the retiree, an allowance equivalent to the amount payable at the
222 time of initial retirement under Option One shall be paid to the retiree for the remainder of the
223 retiree's life, beginning on the first day of the month following the month in which the:

224 (i) spouse died, if notification and supporting documentation for the death are received
225 by the office within 90 days of the spouse's death; or

226 (ii) notification and supporting documentation for the death are received by the office,
227 if the notification and supporting documentation are received by the office more than 90 days
228 after the spouse's death.

229 (e) Option Six is a modification of Option Four so that if the lawful spouse at the time
230 of retirement predeceases the retiree, an allowance equivalent to the amount payable at the time
231 of initial retirement under Option One shall be paid to the retiree for the remainder of the
232 retiree's life, beginning on the first day of the month following the month in which the:

233 (i) spouse died, if notification and supporting documentation for the death are received
234 by the office within 90 days of the spouse's death; or

235 (ii) notification and supporting documentation for the death are received by the office,
236 if the notification and supporting documentation are received by the office more than 90 days
237 after the spouse's death.

238 (4) (a) If a retiree under Option One dies within 120 days after the retiree's retirement
239 date, the retirement is canceled and the death shall be considered as that of a member before
240 retirement.

241 (b) Any payments made to the retiree shall be deducted from the amounts due to the
242 beneficiary.

243 (5) (a) If a retiree retires under either Option Five or Six and subsequently divorces, the
244 retiree may elect to convert the benefit to an Option One benefit at the time of divorce, if there
245 is no court order filed in the matter.

246 (b) A conversion to an Option One benefit under this Subsection (5) begins on the first
247 day of the month following the month in which the notification and supporting documentation
248 for the divorce are received by the office.

249 Section 5. Section **49-23-401** is amended to read:

250 **49-23-401. Contributions -- Rates.**

251 (1) Up to the amount allowed by federal law, the participating employer shall make a
252 nonelective contribution of [~~12%~~] 14% of the participant's compensation to a defined
253 contribution plan.

254 (2) (a) The participating employer shall contribute the [~~12%~~] 14% nonelective
255 contribution described in Subsection (1) to a defined contribution plan qualified under Section
256 401(k) of the Internal Revenue Code which:

257 (i) is sponsored by the board; and

258 (ii) has been grandfathered under Section 1116 of the Federal Tax Reform Act of 1986.

259 (b) The member may make voluntary deferrals to:

260 (i) the qualified 401(k) plan which receives the employer contribution described in this
261 Subsection (2); or

262 (ii) at the member's option, another defined contribution plan established by the
263 participating employer.

264 (c) In addition to the percent specified under Subsection (2)(a), the participating
265 employer shall pay the corresponding Tier I system amortization rate of the employee's
266 compensation to the office to be applied to the employer's corresponding Tier I system liability.

267 (3) (a) Except as provided under Subsection (3)(c), the total amount contributed by the
268 participating employer under Subsection (2)(a) vests to the member upon accruing four years of
269 service credit under this title.

270 (b) The total amount contributed by the member under Subsection (2)(b) vests to the
271 member's benefit immediately and is nonforfeitable.

272 (c) Upon filing a written request for exemption with the office, an eligible employee is
273 exempt from the vesting requirements of Subsection (3)(a) in accordance with Section

274 49-23-203.

275 (d) (i) Years of service credit under Subsection (3)(a) includes any fraction of a year to
276 which the member may be entitled.

277 (ii) At the time of vesting, if a member's years of service credit is within one-tenth of
278 one year of the total years required for vesting, the member shall be considered to have the total
279 years of service credit required for vesting.

280 (4) (a) Contributions made by a participating employer under Subsection (2)(a) shall be
281 invested in a default option selected by the board until the member is vested in accordance with
282 Subsection (3)(a).

283 (b) A member may direct the investment of contributions, including associated
284 investment gains and losses, made by a participating employer under Subsection (2)(a) only
285 after the contributions have vested in accordance with Subsection (3)(a).

286 (c) A member may direct the investment of contributions made by the member under
287 Subsection (3)(b).

288 (5) No loans shall be available from contributions made by a participating employer
289 under Subsection (2)(a).

290 (6) No hardship distributions shall be available from contributions made by a
291 participating employer under Subsection (2)(a).

292 (7) (a) Except as provided in Subsection (7)(b), if a member terminates employment
293 with a participating employer prior to the vesting period described in Subsection (3)(a), all
294 contributions made by a participating employer on behalf of the member under Subsection
295 (2)(a), including associated investment gains and losses are subject to forfeiture.

296 (b) If a member who terminates employment with a participating employer prior to the
297 vesting period described in Subsection (3)(a) subsequently enters employment with the same or
298 another participating employer within 10 years of the termination date of the previous
299 employment:

300 (i) all contributions made by the previous participating employer on behalf of the
301 member, including associated investment gains and losses, shall be reinstated upon the
302 member's employment as a regular full-time employee; and

303 (ii) the length of time that the member worked with the previous employer shall be
304 included in determining whether the member has completed the vesting period under

305 Subsection (3)(a).

306 (c) The office shall establish a forfeiture account and shall specify the uses of the
307 forfeiture account, which may include an offset against administrative costs of employer
308 contributions made under this section.

309 (8) The office may request from any other qualified 401(k) plan under Subsection (2)
310 any relevant information pertaining to the maintenance of its tax qualification under the
311 Internal Revenue Code.

312 (9) The office may take any action which in its judgment is necessary to maintain the
313 tax-qualified status of its 401(k) defined contribution plan under federal law.

314 Section 6. **Study.**

315 (1) During the 2019 Legislative interim, the Retirement and Independent Entities
316 Interim Committee shall study:

317 (a) modifications to the New Public Safety and Firefighter Tier II Contributory
318 Retirement System;

319 (b) the appropriate allocation of funding for the 2% multiplier increase;

320 (c) the appropriate proportional share of funding between the state, employers, and
321 members for changes to the New Public Safety and Firefighter Tier II Contributory Retirement
322 System; and

323 (d) other related issues.

324 (2) The Retirement and Independent Entities Interim Committee may make
325 recommendations for the 2020 General Legislative Session based on the study described in (1).

326 Section 7. **Appropriation.**

327 The following sums of money are appropriated for the fiscal year beginning July 1,
328 2019, and ending June 30, 2020. These are additions to amounts previously appropriated for
329 fiscal year 2020. Under the terms and conditions of Title 63J, Chapter 1, Budgetary Procedures
330 Act, the Legislature appropriates the following sums of money from the funds or accounts
331 indicated for the use and support of the government of the state of Utah.

332 ITEM 1

333 To Utah State Retirement Office -- New Public Safety and Firefighter Tier II
334 Retirement System

335 From General Fund, One-time \$5,300,000

336 Schedule of Programs:

337 Administration

\$5,300,000

338 Section 8. **Effective date.**

339 This bill takes effect on July 1, 2019.