FISCAL ANALYSIS OF 1st SUBSTITUTE H.B. 77

Summary of Fiscal Impact

If enacted, 1st Substitute H.B. 77, Postretirement Employment, would collectively increase the cost for the participating employers in the Utah Retirement Systems (URS) by $30,017,000 per year. The substitute version of the bill requires those employers who directly reemploy retirees to pay the full certified contribution rate on the payroll of those reemployed retirees. This change does not actually change the total cost or fiscal impact, but shifts $10,100,000 of the cost increase from the actuarially determined contributions to contributions required on the payroll of the reemployed retirees.

Proposed Legislative Provisions

1st Substitute H.B. 77 changes the post-retirement reemployment provisions for all URS systems and would provide significantly more opportunity for retired members to continue to receive their retirement allowance after obtaining reemployment with a participating employer in URS. A summary of the changes is as follows:

1) Retains the current post-retirement reemployment provisions (one-year break in service or 60 day break in service with the earnings limit).

2) Allows a retired member continue to receive their retirement allowance and maintain employment with a participating employer in URS if the retiree:

- Has at least a 60 day break in service from their retirement date;
- Does not receive retirement benefits or retirement related contributions;
- Medical and dental benefits, other insurance benefits, paid time off, sick leave, and annual leave may be received; and
- Becomes reemployed by a different agency.

The employer is also required to pay the contribution rate as if the retiree's reemployed position were deemed to be an eligible, full-time position but the retiree does not earn additional service credit.

Discussion and Actuarial Analysis

To begin, the URS fiscal analysis for the original H.B. 77, Postretirement Employment, is incorporated into this analysis and will not be repeated here. In short, the fiscal impact represents the increased cost to the retirement systems for changes in retirement behavior identified by the actuary. Collectively, this legislation would increase the annual cost for the participating employers in URS by $30 million per year.

The actuary reviewed the updated version of 1st Substitute H.B. 77 in light of several statutory changes. The original bill did not permit the reemployed retiree to receive leave benefits (paid time off, sick leave, annual leave, etc.), but 1st Substitute H.B. 77 permits reemployed retirees to receive these benefits. Also, the substitute version reinstates retiree reemployment provisions subject to the earnings limit (lesser of $15,000 and 50% of the member's final average salary) currently in effect for retirees who become reemployed between at least 60 days after, but within one-year of their retirement date. The actuary does not believe these modifications would further alter the members' retirement behavior and, accordingly, does not change the annual cost for the participating employers from the $30 million per year amount previously calculated.

The substitute version of the bill requires those employers who directly reemploy certain retirees to pay the full certified contribution rate, rather than just the amortization rate, on the payroll of those reemployed retirees. The actuary provided the following table with the breakdown in the dollar amount of the fiscal cost. Note, the total increase in the annual cost remains unchanged at $30.0M, because that is the cost of the change in retirement behavior. Rather, this modification shifts $10.1M of the cost to those employers who directly employ the working retirees, by requiring them to pay the total contribution rate. Since the increase in the rate charged to employers on the payroll of working retirees does not cover the cost of increased benefits, the remaining $19.9M in the cost increase will need to be financed by an increase in the actuarially determined contribution rate.

Employer Type	**Public Employee**	**Public Safety and Firefighter**	**Total Annual Cost**
Additional charge to employers on the payroll of working retirees:	$5.4M	$4.7M	$10.1M
Increase in the actuarial determined contribution rate:	13.9M	6.0M	19.9M
Total Increase:	$19.3M	$10.7M	$30.0M

For purposes of this analysis, the actuary assumed that those members who would retire at an earlier retirement age, would work to their assumed retirement age if the return to work provisions had not been modified. For example, in the example submitted with the fiscal analysis for the original version of H.B. 77 where John Doe commenced his benefit five years earlier at age 55, he is assumed to work during retirement for five years and completely leave the workforce at age 60.

Other Comments

This analysis only describes the financial and actuarial effect of the proposed plan changes on URS. Changes in post-retirement reemployment provisions could impact additional employer issues and the cost of other benefit programs, such as medical and dental plans; this analysis does not include other such possible impacts.