

URS Fiscal Analysis of 2015 1st Substitute S.B. 239

Summary of Fiscal Impact

If enacted, 1st Substitute S.B. 239, Retirement Withdrawal Modifications, does not have a material fiscal impact on the Utah Retirement Systems (URS).

Proposed Legislative Provisions

2014 H.B. 426 enacted Utah Code Section 49-11-623 establishing a window, through January 1, 2017, permitting a qualifying entity to make a certain election of withdrawal in a URS system or plan, sometimes called a “soft freeze.” In addition, the withdrawing entity would be required to pay any reasonable actuarial and administrative costs that arise out of the election of nonparticipation.

With 2015 1st Substitute S.B. 239, an alternative withdrawal scenario, sometimes called a “hard freeze,” is also authorized for a qualifying entity during the window for election of nonparticipation. The legislation also requires the withdrawing entity and URS to enter into an agreement before a withdrawal may occur. This agreement shall cover the costs that arise out of the election of nonparticipation and arrangements for the payment of such costs. In addition, 1st Substitute S.B. 239 requires a withdrawing entity to submit to the governor and the Retirement and Independent Entities Committee an annual written report of its finances, operations, and services for the preceding fiscal year.

Discussion and Actuarial Analysis

Under a soft freeze election of nonparticipation, current members would continue to participate, earning additional service and benefits, but no future employees of the withdrawing entity would be allowed to join URS. Also, the withdrawing entity would continue to make contributions on the payroll of the covered members.

Under a hard freeze election of nonparticipation, the employees would be treated as though they had terminated employment. Eligibility for vesting or retirement benefits would only be based on their current service. Their benefits would be based on current service and their current final average salary. Neither the withdrawing entity nor its employees would make contributions to URS in the future. Employees of the withdrawing entity who are vested for a retirement benefit may receive their retirement benefit when they are eligible. Employees who are not vested in their retirement benefit will not receive a retirement benefit from URS, but may receive a refund of their employee contributions, if any.

A withdrawing entity under Section 49-11-623 would be a participating employer in the Local Government division of the Public Employees Retirement System (Tier I Contributory, Tier I Noncontributory, and Tier II Hybrid Plan). Each of these systems is a cost-sharing multiple-employer defined benefit plan. Under this type of plan the pension obligations of participating employers are pooled and the pension plan assets of the system can be used to pay the benefits of the retirees of any employer that participates in the plan. As a result, there is no separate trust established for each participating employer. All the employers share equally in the cost and risk by contributing an actuarially determined contribution rate that is determined as a percentage of total payroll for all of covered employers.

The actuary believes the appropriate way to determine a shortfall associated with a withdrawing employer is to:

1. Determine the present value of future benefits associated with the benefits for the closed group of current members (active and inactive);
2. Subtract an allocated share of the market value of assets; and
3. Subtract the actuarial present value of future contributions, if any.

The net result represents the liability that would be left behind to be covered by the remaining participating employers of the system, unless the withdrawing employer is required to make up the shortfall.

1st Substitute S.B. 239 added a requirement for the withdrawing entity and URS to enter into an agreement relating to the costs of withdrawal, but this does not affect the existing requirements under Subsection 49-11-623(2)(b) for the withdrawing entity to pay any reasonable actuarial and administrative costs that arise out of the election of nonparticipation. This provision prevents the remaining participating employers of the systems from having to subsidize the cost of providing retirement benefits to the employees (and former employees) of the withdrawing entity through an increase to their contribution rates. Accordingly, 1st Substitute S.B. 239 is not expected to have a material fiscal impact on the retirement systems.