URS Fiscal Analysis of 2015 H.B. 77

Summary of Fiscal Impact
If enacted, 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. Exhibit 2 shows the impact on the actuarially determined contribution rates and annual cost impact for FY 2016 for each fund.

Proposed Legislative Provisions
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) Eliminates the earnings limit (lesser of $15,000 and 50% of the member's final average salary) in effect for retirees who become reemployed between at least 60 days after, but within one-year of their retirement date; and

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, or leave related benefits (including paid time off, sick leave, and annual leave). Medical and dental benefits may be permitted; and
- Becomes reemployed by a different agency.

The attached Exhibit 1 shows a comparison of the post-retirement reemployment provisions currently in effect and the new rules proposed by H.B. 77.

Discussion
It is more expensive to fund retirement benefits when plan provisions permit or encourage members to commence their retirement benefit at an earlier age. This observation was examined by the Office of the Legislative Auditor General in Report 2009-17: A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees. It was also extensively studied leading up to the 2010 General Session when S.B. 43, Post-retirement Employment Amendments, was enacted.

S.B. 43 included comprehensive post-retirement reemployment restrictions, which have largely remained unchanged since becoming effective on July 1, 2010. S.B. 127, Post Retirement Employment Amendments, enacted in the 2011 General Session did authorize some limited post-retirement reemployment following a 60-day separation, but several important conditions apply that limit retirees returning to work and resulting costs. These conditions require that: (1) The retiree does not receive employer provided benefits; (2) The retiree's compensation during the year does not exceed the lesser of $15,000 or 50% of their final average salary; and (3) the one-year separation period does not run while the retiree is reemployed under the limited service conditions.

The following table illustrates the additional cost to the retirement system for a hypothetical public employee, John Doe, to commence his retirement benefit at an earlier age. In this example, Mr. Doe, elects to commence his retirement allowance at age 55, with 30 years of service and then work 5 more years to age 60. In Scenario B, Mr. Doe retires at age 60 with 35 years of service. In both scenarios, Mr. Doe is assumed to live to age 85, the approximate life expectancy of a retiree in URS.

Example of Increase in Present Value of Retirement Allowance for Retiring at an Earlier Age

	Scenario A Retire at age 55 with 30 years of service, with the intention of being reemployed 5 more years	**Scenario B** Retire at age 60 with 35 years of service, with the intention of leaving the workforce
	(1)	(2)

1. Initial retirement allowance[1]	$39,000	$54,040
2. Total payments received to age 85	$1,637,000	$1,797,000
3. Present value of retirement allowance at age 55[2]	$602,000	$536,000
4. Increase in present value of retirement allowance		$66,000 (12.3% increase)

[1] Under Scenario A, Mr. Doe retires at age 55 with an average final compensation (AFC) of $65,000, and 30 years of service. Under Scenario B, Mr. Doe retires at age 60 with and AFC of $77,200 (3.50% annual increase in salary from age 55 to age 60) and 35 years of service.

[2] Present value determined using the 7.50% actuarial valuation interest rate assumption.

As the example shows, the present value as of age 55 of the member's retirement allowance is larger if he retires at an earlier age. While Mr. Doe monthly retirement allowance and total benefits received would be larger if he delays retirement to age 60, the present value of this amount is lower because he commenced receiving this retirement allowance five years later.

Actuarial Analysis

To calculate the financial impact of the proposed legislation, the actuary identifies the change in retirement behavior due to these new provisions. Since this legislation has similarity to the work after retirement provisions that were in effect prior to July 1, 2010, the actuary compared the current retirement assumptions to the retirement assumptions used for actuarial valuations when the prior work after retirement provisions were in effect. Based on a review of these retirement assumptions, the actuary believes it is appropriate to expect there will be a 5% increase in the number of members who commence a normal retirement benefit at each eligible age prior to age 65 for public employees and prior to age 60 for public safety and firefighters.
If enacted, H.B. 77 would increase the actuarially determined contribution rate for the Noncontributory State and School fund, Fund 16, by 0.46% to 20.88%. The actuarially determined contribution rates for the Public Safety Funds would experience increases ranging from 1.39% to 2.19% of pay, and the contribution rates for the Division A and B Firefighter funds would increase by 3.07% and 3.74%, respectively. The contribution rates for both the Tier II Hybrid Plans would also increase, but they would continue to remain noncontributory. However, since the employer's cost is fixed at 10% of pay (12% of pay for public safety and fighters), the increased cost of the defined benefit plan would decrease the allocation to the members' defined contribution account.

Collectively, this legislation would increase the annual cost for the participating employers in URS by $30 million per year. Please refer to Exhibit 2 for the impact on the actuarially determined contribution rates and annual cost impact for FY 2016 for each fund.

Data and Assumptions

The actuary's analysis is based on the member and financial data that were used to prepare the January 1, 2014 actuarial valuation. To appropriately model the change in retirement behavior, the normal retirement assumptions at each age under age 65 for public employees and under age 60 for public safety and firefighters were increased by 5.0%. Stated another way, 5.0% was added to the normal retirement rates at each age below age 65 for public employees and age 60 for public safety and firefighters.

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.

Exhibit 1

Comparison of the Current and Proposed Work After Retirement Provisions

	Time Period Between the Member's Reemployment Date and their Date of Retirement		
	Less than 60 Days	**Between 60 Days and One Year**	**After One Year**
	(1)	(2)	(3)
Current Provisions	Retirement allowance ceases and the member is returned to active status.	Retirement allowance continues as long as: (1) Member does not receive employer provided benefits, including but not limited to: medical, dental, retirement, paid time off, annual leave, and sick leave. (2) The member's compensation during the year does not exceed the lesser of $15,000 or 50% of their final average salary.	Retiree may elect to either: (1) Cancel their retirement allowance and return to active status; or (2) Continue to receive their retirement allowance and forfeit earning additional retirement benefits.
Proposed Provisions	Retirement allowance ceases and the member is returned to active status.	Retirement allowance continues as long as: (1) Member does not receive retirement, paid time off, annual leave, and sick leave (medical, dental, disability, and other benefits are permitted). (2) Member is reemployed by a different agency.	Retiree may elect to either: (1) Cancel their retirement allowance and return to active status; or (2) Continue to receive their retirement allowance and forfeit earning additional retirement benefits.

Exhibit 2

Impact on Actuarially Determined Contribution Rates and Annual Cost for Participating Employers
($ in thousands)

Fund/Division	Actuarially Determined Contribution Rates			Annual Cost for FY 2016 Based on Actuarially Determined Rates		
	Current	Proposed Legislation	Increase	Current	Proposed Legislation	Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Public Employees Contributory						
A. Local Government	12.71%	13.18%	0.47%	$ 7,170	$ 7,417	$ 247
B. State and School	15.93%	16.39%	0.46%	6,831	6,987	156
II. Public Employees Noncontributory						
A. Local Government	16.72%	17.19%	0.47%	147,791	152,059	4,268
B. State and School	20.42%	20.88%	0.46%	594,461	607,888	13,427
III. Public Safety Contributory						
A. State	25.91%	27.74%	1.83%	35	37	2
B. Other Division A (2.5% COLA)	18.67%	20.41%	1.74%	859	937	78
C. Other Division A (4% COLA)	21.16%	23.16%	2.00%	63	69	6
D. Logan	29.48%	31.67%	2.19%	142	152	10
E. Other Division B (2.5% COLA)	19.24%	20.63%	1.39%	47	50	3
F. Other Division B (4% COLA)	23.00%	24.76%	1.76%	84	90	6
IV. Public Safety Noncontributory						
A. State	37.52%	39.24%	1.72%	44,553	46,476	1,923
B. Other Division A (2.5% COLA)	30.07%	31.76%	1.69%	33,251	35,091	1,840
C. Other Division A (4% COLA)	32.56%	34.49%	1.93%	11,151	11,794	643
D. Salt Lake City	43.85%	45.81%	1.96%	12,785	13,320	535
E. Ogden	46.25%	48.05%	1.80%	2,744	2,846	102
F. Provo	37.76%	39.65%	1.89%	2,151	2,252	101
G. Logan	39.66%	41.81%	2.15%	846	889	43
H. Bountiful	45.94%	47.48%	1.54%	855	882	27
I. Other Division B (2.5% COLA)	28.97%	30.41%	1.44%	16,287	17,044	757
J. Other Division B (4% COLA)	33.13%	34.87%	1.74%	1,651	1,735	84
V. Firefighters[2]						
A. Division A	10.93%	14.00%	3.07%	3,018	3,883	865
B. Division B	12.08%	15.82%	3.74%	10,566	13,824	3,258
VI. Judges[2]	50.47%	50.47%	0.00%	8,510	8,510	0
V. Tier II - Hybrid Plans[3]						
A. Public Employees	7.98%	8.05%	0.07%	57,946	59,086	1,140
B. Public Safety and Firefighter	10.17%	10.55%	0.38%	6,238	6,734	496
IV. Grand Total				$ 970,035	$ 1,000,052	$ 30,017

[1] The actuarially determined contribution rates may be less than the Board certified contribution rates because they do not reflect the Board's policy of maintaining the prior year's rate, if greater, as permitted by U.C. Sec. 49-11-301(5), which causes the unfunded liability to be paid down sooner.

[2] These contribution rates are before reflecting offsets for insurance premiums and court fees.

[3] These rates for the Tier II Hybrid Funds exclude the Tier I amortization payment and the 3% Substantial Substitute.