

***This is only a proposal outline, not legislation at this point.

Utah Retirement Systems - Reform Proposal:

(1) New Retirement System : 2 options available to new employees; employees will choose plan upon hiring:

a. Key elements of the New Retirement System:

i. July 1, 2011 Effective Date:

1. Applies only to New Hires after July 1, 2011
2. Allows for Independent Actuarial Study (REP is in process; expected to begin in May 2010 and be completed by August 2010)
3. Allows URS to complete the required programming and educational materials/plan
4. Allows additional Legislative review in 2011 session
5. Allows the Pension fund time to recover before changes "go live"

ii. One retirement system (big system, public safety, firefighters, and judges all combined into one); Governor and Legislators in DC only plan

1. Policy move towards a true Retirement System
2. Reduces the risk of "pension creep"

iii. Require in statute that retirement benefits cannot increase until every current system is 100% funded

1. Sets the clear priority to shore up the current retirement system
2. Reduces the risk of "pension creep"

iv. Require covered entities (State, School Districts, Cities, Counties, Special Districts, etc.) to contribute the Unfunded Actuarial Accrued Liability (UAAL) amount to the legacy defined benefit system

1. UAAL = Actual URS Employer Contribution Rate - Normal Cost Rate

- a. Normal Cost Rate is an Actuarial term; it reflects the "normal" cost of the promised retirement benefits if URS achieves the expected portfolio return of 7.75%
- b. UAAL is an Actuarial term; it reflects the additional cost (above the Normal Cost) of the promised retirement benefits if URS realizes gains/losses below the expected portfolio return of 7.75%
- c. URS will begin publishing Normal Cost and UAAL rates beginning in early 2010

b. Defined Contribution plan:

8% total retirement contribution into a 401(a) plan

ii. Administered by URS

iii. Borrowing against 401(a) plan will be prohibited

iv. 4 year "cliff" vesting

1. If employee leaves before 4 years, funds go to current DB system to help close the actuarial unfunded liability
2. Employee cannot direct investment until after vesting date

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c. Hybrid Defined Benefit and Defined Contribution plan:

i. 8% total retirement contribution into a hybrid DB/DC plan

1. New defined benefit component (expected to cost 5% of the 8% retirement contribution)
 - a. Contributory system
 - b. 35 year minimum retirement
 - c. 1% service credit per year
 - d. 2.5% COLA based on CPI
 - e. Five year final average salary calculation
2. New defined contribution component (expected to be 3% of the 8% retirement contribution)
 - a. Contribution into a 401(a) plan
 - b. Administered by URS
 - c. Borrowing against 401(a) plan will be prohibited
 - d. Amount to increase or decrease as contribution rates to New DB plan fluctuates (8% total retirement contribution - required new DB contribution rate = DC contribution)
3. 4 year "cliff" vesting for the hybrid DB/DC plan
 - a. If employee leaves before 4 years, funds go to current DB system to help close the actuarial unfunded liability
 - b. Employee cannot direct DC investment until after vesting date (2)

Changes to Current System:

- a. End the 1.5% 401(k) contribution for current state employees; use funds to help offset DB rate increases
- b. Phase into higher minimum retirement service years across all systems (similar to recent phase in schedule used by the Federal Government for Social Security):
 - i. July 1, 2011 Effective Date:
 1. Allows for Independent Actuarial Study (RFP is in process; expected to begin in May 2010 and be completed by August 2010)
 2. Allows URS to complete the required programming and educational materials/plan
 3. Allows additional Legislative review in 2011 session
 4. Allows the Pension fund time to recover before changes "go live"
 - ii. Increase minimum retirement service years by 5 years for non-vested employees (employees with less than 4 years of service prior to July 1, 2011)
 - iii. Increase minimum retirement service years for vested employees (employees with greater than 4 years of service prior to July 1, 2011) who are not eligible for retirement as of July 1, 2011 according to the following formula:
 1. Big system - Five additional years of service phased in over 26 years (current 30 year minimum requirement - 4 vesting years)
 - a. Phase in rate $(0.192) = 5 \text{ additional years} / 26 \text{ year phase in period}$

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- b. Phase in formula per employee = Phase in rate * (30 years minimum service - actual years of service as of July 1, 2011)
- c. Schedule of additional minimum service years based on actual years of service on the effective date:
 - i. 29 years of service = additional 2.3 months
 - ii. 28 years of service = additional 4.6 months
 - iii. 27 years of service = additional 6.9 months
 - iv. 26 years of service = additional 9.2 months
 - v. 25 years of service = additional 11.5 months
 - vi. 24 years of service = additional 1 year 1.8 months
 - vii. 23 years of service = additional 1 year 4.1 months
 - viii. 22 years of service = additional 1 year 6.4 months
 - ix. 21 years of service = additional 1 year 8.7 months
 - x. 20 years of service = additional 1 year 11.1 months
 - xi. 19 years of service = additional 2 years 1.4 months
 - xii. 18 years of service = additional 2 years 3.7 months
 - xiii. 17 years of service = additional 2 years 6 months
 - xiv. 16 years of service = additional 2 years 8.3 months
 - xv. 15 years of service = additional 2 years 10.5 months
 - xvi. 14 years of service = additional 3 years 0.9 months
 - xvii. 13 years of service = additional 3 years 3.2 months
 - xviii. 12 years of service = additional 3 years 5.5 months
 - xix. 11 years of service = additional 3 years 7.8 months
 - xx. 10 years of service = additional 3 years 10.1 months
 - xxi. 9 years of service = additional 4 years 0.4 months
 - xxii. 8 years of service = additional 4 years 2.7 months
 - xxiii. 7 years of service = additional 4 years 5 months =
 - xxiv. 6 years of service additional 4 years 7.3 months =
 - xxv. 5 years of service additional 4 years 9.6 months =
 - xxvi. 4 years of service additional 5 years

2. Public Safety/Firefighters Systems/Judges - Five additional years of service phased in over 16 years (current 20 year minimum requirement - 4 vesting years)

- a. Phase in rate (0.313) = 5 additional years / 16 year phase in period
- b. Phase in formula per employee = Phase in rate * (20 years minimum service - actual years of service as of July 1, 2011)
- c. Schedule of additional minimum service years based on actual years of service on the effective date:
 - i. 19 years of service = additional 3.8 months
 - ii. 18 years of service = additional 7.5 months
 - iii. 17 years of service = additional 11.3 months

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- iv. 16 years of service = additional 1 year 3 months
- v. 15 years of service = additional 1 year 6.8 months
- vi. 14 years of service = additional 1 year 10.5 months
- vii. • 13 years of service = additional 2 years 2.3 months
- viii. 12 years of service = additional 2 years 6 months
- ix. 11 years of service = additional 2 years 9.8 months
- x. 10 years of service = additional 3 years 1.6 months
- xi. 9 years of service = additional 3 years 5.3 months
- xii. • 8 years of service = additional 3 years 9.1 months
- xiii. • 7 years of service = additional 4 years 0.8 months
- xiv. • 6 years of service = additional 4 years 4.6 months
- xv. • 5 years of service = additional 4 years 8.3 months
- xvi. • 4 years of service = additional 5 years

iv. Corresponding reduction in Governor/ Legislator plan will be required; actual approach still TBD

(3) Post Retirement Changes:

- a. July 1, 2010 effective date:
 - i. Minimal URS programming is required
- b. Retired employees rehired into a full-time position before July 1, 2010:
 - i. Remove the statutory mandate for employers to match URS DB contributions with an equivalent DC contributions
 - ii. Require covered entities (State, School Districts, Cities, Counties, Special Districts, etc.) to contribute the Unfunded Actuarial Accrued Liability (UAAL) amount to the legacy defined benefit system for currently retired / rehired employees
 - 1. UAAL = Actual URS Employer Contribution Rate - Normal Cost Rate
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 - b. UAAL is an Actuarial term; it reflects the additional cost (above the Normal Cost) of the promised retirement benefits if URS realizes gains/losses below the expected portfolio return of 7.75%
 - c. URS will begin publishing Normal Cost and UAAL rates beginning in early 2010
- c. Retired employees rehired into a full-time position after July 1, 2010:
 - i. Require suspension of the pension payments upon rehire, but allow rehired employee to earn additional service credit
 - ii. Require employers to pay full URS contribution rate into the URS system
 - iii. Remove service credit cap for public safety (currently capped at 30 years)