

Utah Retirement Benefit Issues

As we reported to you in the September issue of the USEA Review, the Utah Legislature is again considering changes to the Utah Retirement Systems (URS). As you know, some legislators have been interested in moving the system to a Defined Contribution Plan (DC) and away from the current Defined Benefit (DB) Plan. They are using the economic downturn in Utah, and the entire country, as an opportunity to raise issues for changing the system once again. For more information about DB & DC plans, please go to: http://www.urs.org/news/db_vs_dc.shtml.

According to Robert Newman, URS Executive Director, the URS lost a significant amount of equity in the fund in 2008. Investment returns for 2008 were down by 22.4%, which does not include the additional 7.75% actuarial assumed return rate for that year. However, the URS is still considered to be one of the best funded state pension programs in the country. The system currently has a funded ratio of 86%, putting Utah in the top 10% of states for pension funding levels. The high occurred in 2001 at 103.4% and has been as low as 74.6% in the early 1990's.

The URS uses a five year smoothing-period to average out market highs and lows. Based on this, the losses of 2008 will be spread over the next five years. This will require a 2.1% increase in the contribution rate for FY2011, beginning July 1, 2010. The URS also assumes a 7.75% annual rate of return on investments in their actuarial model. The URS investment returns for 2009 are currently between 12%-13%, well above the actuarial assumptions.

A presentation was made on November 12, 2009 to the Utah Retirement and Independent Entities Committee by Gabriel Roeder Smith & Company, Consultants & Actuaries (GRS). GRS presented several long-term projections under various scenarios.

While several scenarios were presented, the baseline scenario projects that contribution rates will increase beginning July 1, 2010 and continue to increase each year until peaking in 2016, after which the contribution rate remains constant until the plan becomes funded at 110%. Over the six year period between 2010 and 2016, contribution rates will increase 9.85%.

It was also stated in the report that: *"Some observers believe that as the economy works its way out of the recession, we will see significant market recovery. If this occurs, the increase in the employer contribution rates over the next five years will not need to be as large. However, other observers believe that we have already experienced most of any recovery"*.

No official proposal has been made by the Legislature at this time. However, possible changes to the URS that may be considered include:

- Suspend or lower post-retiree employee's contribution to their 401K (employees that retire and then return to work for an employer that participates in URS);
- Extend the final average salary period from the three highest years to five years;
- Replace the current Defined Benefit (DB) system with a Defined Contribution (DC) system;
- Provide only a Defined Contribution system for all new employees;
- Convert the non-contributory system to a contributory system;
- Reduce the current 2% of salary per year multiplier to 1.9%;
- Eliminate or reduce the employer's 1.5% of salary contribution to the employee's 401k;
- Set a minimum age requirement for retirement eligibility at 30 years of service;
- Increase the vesting period for new employees (currently 4 years);
- Develop a "hybrid" contributory/non-contributory system.

Any of the above mentioned changes to the retirement system would require legislative action. While no decisions have been made at this time, we expect legislation will be presented in the 2010 Legislative session to make some changes to the current system.

USEA's Position

- USEA believes that the Utah Retirement System is financially sound with a current funded ratio of 86%.
- The benefits provided by URS are an important part of what attracts and retains quality employees for Utah and its political subdivisions.
- We are encouraging legislators to proceed with caution; the Utah Retirement System is designed to operate over the long term and there is no need for a knee-jerk reaction to the current situation.
- USEA believes that a legislative task force would be appropriate to consider the long-term needs of the system.
- The current system has served Utah well and any changes should be made only after careful investigation of the long-term impact.

USEA is working in coalition with other like-minded organizations and we will continue to monitor this important issue for our members. USEA testified in the November 12th committee meeting and will continue to take an active role in working with decision-makers to protect your benefits. We will keep you informed of any changes on these issues. For updates, please visit the USEA website at www.useautah.org