

## Utah Defined Benefit Plan

**93,576**

total active (working) members

**10**

avg. years of service

**\$40,531**

avg. annual salary

**2,082**

2008 retirees

**62.5**

avg. age at retirement

**21.6**

avg. years of service

## Utah Contribution Plan

**2,743**

total active members

**20.3**

avg. years of service

**\$46,830**

avg. annual salary

**151**

2008 retirees

**60.4**

avg. age at retirement

**26.0**

avg. years of service

Source: URS 2008 Annual Report

## Why reform the Utah Retirement System?

The Utah State Legislature is anticipating a \$78 million dollar expenditure from the general fund to pay for current state retirement benefits. The Utah State Retirement System (URS), like every pension plan across the nation, has been significantly hurt by the recent financial crisis and economic downturn (however, in 2008 investment returns for Utah were better than 80% of the other large pension plans in the nation). In addition to the recent pressure created by the economic downturn, demographic changes (i.e. baby boomer retirees, longer life expectancy) challenge the ability of the URS to continue to meet benefit requirements for retirees without subsidizing these benefits from the general fund.

The Utah League of Cities and Towns has recently put together a local government retirement committee to address these concerns and potential legislative action to shape the future of the Utah Retirement system for public employees.

The Local Government Retirement Committee has met twice and addressed the issues of concern creating financial strain. The retirement committee has also determined some guiding principles to shape the policy consideration or solutions:

- 1. Preserve and Protect Benefits To Date*
  - Current Retirees – No change in benefits
  - Active – Service earned – no change
  - Active – Future service – possible changes allowed
  - New Hires – Changes allowed
  - Retired/Rehired – Changes allowed
- 2. There should be more risk sharing between employees and employers*
- 3. Fiscal responsibility of local and state government should be a contributing factor*
- 4. Human resources issues/goals should be consistent with changes*
- 5. Any legislative action should correlate with the market*
  - If possible allow for changes to be staggered or triggered by certain economic/market circumstances
- 6. Look for a long-term sustainable system*
  - Don't just respond to the short term market
  - Use opportunity to make system changes to accomplish objectives outlined in the guiding principles

Any solution to the retirement policy issue should consider all of these factors.



# What is the answer?

*We don't know...but here are some potential solutions*

Any potential solution must balance some key elements: current employees, current retirees, future employees, and HR concerns.

## POSSIBLE SOLUTIONS:

### 1. Adjust Defined Contribution (DC)

Redirect the statutory state and school 1.5% DC contribution in the noncontributory public system to the defined benefit (DB) plan.

### 2. Final Average Salary Calculations

Change the final average salary (FAS) from 3 years to 5 years. The proposal would allow anyone retiring before the end of FY2011 to use 3 years, FY12 use 4 years, and everyone retiring after that use 5 years.

### 3. Multiplier Changes

Change the formula multiplier from 2.0%(number of years x 2.0% x Final Average Salary) to 1.9%. This results in a 5% reduction in benefit. Grandfathering those already eligible for retirement would save the state 1.06%

### 4. Change in minimum retirement age

Currently the DB system requires public employees to either have 30 years of experience or be over the age of 65 to retire without any penalty. One policy consideration is to change this age requirement to 62, 60, or 55. Changing the minimum retirement age raises the concern of employees currently in the retirement system. Do you grandfather them in? If so, the benefit of this change is more marginal.

### 5. COLA Changes

Defer COLA to 3<sup>rd</sup> anniversary of the retirement or 1<sup>st</sup> retirement anniversary after turning 65, whichever comes first. Without grandfathering in current employees this would save local government 0.58%.

### 6. Change Retirement for Police and Fire

Currently police and fire employees retire with full benefits at 20 years of service. This proposal would change this

retirement service requirement to 25 years. Applied to new hires only would save 0.38% -- grandfathering in those with 18 years or more, but than using a sliding scale would save 0.42% to 0.57% for local government.

### 7. Move To a Contributory System

Moving from a noncontributory system to a contributory retirement system will allow public employees to participate in funding their personal retirement benefit. This essentially shifts the investment risks from the state to the individual.

### 8. Change post retirement reemployment benefits

There is a lot of political momentum to reform or address this issue. Utah comparably has a very generous post retirement reemployment policy. However, the concern is if any changes can be applied to those currently in post-retired status.

### 9. Rule of 80, 85, or 90

This rule allows for a combination factor of years served and age. For example, rule of 90 would mean that an employee with 32 years of service and is 58 years of age could retire with full benefits and without penalty.

### 10. Combination of any of these plans

The Utah State Retirement System (URS) recently lost around \$5 billion of portfolio value

