

Utah Retirement Systems

Retirement Office

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ROBERT V. NEWMAN
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JEFFREY L. JENSEN
Director

January 26, 2010

Senator Daniel R. Liljenquist
320 State Capitol
PO Box 145115
Salt Lake City, UT 84114

Dear Senator Liljenquist:

You requested the Utah Retirement System's (URS) position with respect to the current actuarial condition and soundness of the systems administered by URS.

Historically, since the inception of the modern retirement systems in 1963, the Legislature has funded the retirement systems on a statutorily mandated "actuarially sound basis" by appropriating the amount certified each year (expressed as a percentage of an employee's salary) as determined by an actuarial analysis of the assets and liabilities of the systems. This analysis is based on a series of assumptions including the level of benefits, retirement and mortality rates, and most importantly for this discussion, an assumption the retirement funds will earn a 7.75% rate of return annually. Any material change in any of these assumptions will cause a significant change in the contribution rates needed to fund the systems on an actuarial sound basis.

As you know, the 2008 rate of return on investments was negative 22.3%, both unprecedented in the history of URS and substantially below the 7.75% assumed rate. The contribution rates over the next several years will undoubtedly increase because the retirement fund uses a formula to stabilize contribution rates by allocating 20% of gains and losses in any given year. 80% of the 2008 negative return will be recognized over the next four years.

Gabriel, Roeder, Smith and Company, the actuaries used by URS, prepared various scenarios to show the long term impact of the 2008 returns. These were outlined in a letter dated November 10, 2009, and also presented November 12, 2009, to the Retirement and Independent Entities Committee. These scenarios were developed using actuarial and investment assumptions adopted by the Retirement Board. Applying these assumptions and projecting forward, if these assumptions hold true,

contribution rates for all retirement systems will continue to increase over the next 3 to 5 years and will remain at historically high levels for the next 20 to 25 years.

The decision on how to proceed, whether paying the increased contribution rate going forward or implementing some type of benefit reform is a policy decision for the Legislature.

As you know, URS staff and consultants have spent significant time with you and other stakeholders exploring the various options in light of the current circumstances. We will continue to make ourselves available, as needed, to assist in addressing this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert V. Newman". The signature is written in a cursive style with a large initial "R".

Robert V. Newman
Executive Director
UTAH RETIREMENT SYSTEMS