

**MINUTES OF THE
RESTIREMENT AND INDEPENDENT ENTITIES INTERIM COMMITTEE**

Wednesday, September 9, 2015 – 1:30 P.M. – Room 30 House Building

Members Present:

Sen. Todd Weiler, Senate Chair
Rep. Kraig Powell, House Chair
Sen. Gene Davis
Sen. Margaret Dayton
Sen. Karen Mayne
Sen. Daniel W. Thatcher
Rep. Rich Cunningham
Rep. Sophia M. DiCaro
Rep. Susan Duckworth
Rep. Steve Eliason
Rep. Justin J. Miller
Rep. Marie H. Poulson

Rep. John R. Westwood

Members Absent:

Sen. Curtis S. Bramble
Rep. Bradley G. Last

Staff Present:

Mr. Benjamin N. Christensen, Policy Analyst
Ms. Patricia Owen, Associate General Counsel
Mr. Peter Asplund, Associate General Counsel
Mr. Brian D. Fay, Fiscal Analyst
Ms. Katie LeFevre, Legislative Assistant

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Weiler called the meeting to order at 1:32 p.m. Sen. Bramble and Rep. Last were excused from the meeting.

MOTION: Sen. Dayton moved to approve the minutes of the June 24, 2015, meeting. The motion passed unanimously with Sen. Davis, Sen. Mayne, and Rep. Eliason absent for the vote.

2. Retirement Contribution Rates and Actuarial Calculations

Mr. Daniel D. Andersen, Executive Director, Utah Retirement Systems, Mr. Daniel J. White, Senior Consultant, Gabriel Roeder Smith & Company, and Mr. Lewis Ward, consultant, Gabriel Roeder Smith & Company, addressed the committee. Mr. Andersen distributed a copy of the "Utah Retirement Systems Actuarial Presentation."

Mr. Andersen discussed the contribution rates for the upcoming fiscal year. He informed the committee that this is the third consecutive year contribution rates have not changed. He explained that the funded status is starting to align with projections. He added that the contribution rates are stabilizing due to Utah's law not requiring decreased contribution rates until Utah Retirement Systems (URS) is 110% funded.

Mr. White identified Fiscal Year 2016-2017 contribution rates, post-retirement employment reform, and the fiscal assessment of Tier II as the three main presentation topics. He informed the committee that the current unfunded liability of URS on a market value basis is \$3.2 billion. He explained the components of contribution rates and the influence of the Utah Code.

Mr. White discussed the "Preliminary Tier I Retirement Contribution Rates" and pointed out changes in the firefighter's and judge's funds. He described why dollar amounts change when contribution rates remain the same. Mr. White explained that the current rates can remain the same without having to extend the 20-year funding period, based on projections.

Mr. White discussed the "Preliminary Tier 2 Retirement Contribution Rates." He specifically addressed the unfunded liability in Tier I and how it is financed. Mr. White answered questions from the committee regarding Tier I unfunded liability.

Mr. Andersen explained that employers must pay the unfunded liability and the amortization rate for all Tier II employees. He informed the committee that another method to pay the unfunded liability and amortization rate would be to limit the amortization rate to Tier I employees, but this would result in increasing contribution rates due to the shrinking number of Tier I employees overtime. He acknowledged that with either method, the same amount of money would be paid. He cautioned the committee against confusing the amortization rate as Tier II money, because it is not legally or practically Tier II money. He identified this as a method to pay off an existing liability and described it as a long-term fix for a long-term problem.

Rep. Cunningham requested staff to find and share the numbers showing the percentage of the contributions in dollar amount in conjunction with the gains in funds. He expressed his concern for the potential impacts of market changes on retirement funds.

Mr. White clarified that the legislators who created Tier II were more concerned about reducing the state's risk rather than reducing cost. He explained that Tier II shares the investment risk with employees. He also explained that the investment assumptions have been changed, based on lessons from the 2008 recession.

Mr. White stated that the contribution rates for Fiscal Year 2016, recommended by the actuaries and certified by the Retirement Board, remain unchanged from the prior year and have been in effect since July 1, 2014. He elaborated saying that the rates are not expected to change in the foreseeable future.

Mr. White discussed postretirement reform. He highlighted postretirement provisions prior to the reform and the current provisions. He stated that URS requested the actuaries to perform an assessment of how much the fiscal reform has saved, and they found the savings to be \$395 million. Mr. White outlined the impact of change in working retiree behavior for educators, state and local government employees, public safety employees, and firefighters. He answered questions from the committee regarding formulas, policy options, and yearly savings from the reform.

Mr. Christensen informed the committee that the Retirement Working Group distributed the "2015 Survey of Potential Postretirement Employment Restrictions Modifications."

Mr. White discussed Tier II retirement. He reiterated that at the time Tier II was created, legislators wanted to reduce risk. He informed the committee that the savings from the reform are going to be gradual. He illustrated the change in employer liability and the projected change of employer costs as a result of creating Tier II.

Mr. White answered questions from the committee regarding benefit selection, projected funding of Tier I and Tier II, benefit risks, the rate of return on the investment policy, and benefit options.

Mr. White concluded by saying contribution rates are expected to remain stable in the foreseeable future. He explained that the current retirement reform restricted, but did not completely eliminate, retirees' ability to receive their retirement allowance and continue working. He informed the committee that Tier II is achieving the objectives it was intended to achieve.

3. Proposals from Utah Independent Entities

Mr. Christensen explained that the committee chairs sent a letter to URS and other independent entities and interest groups requesting proposals for any legislation that the entities plans to pursue in the 2016 General Session. He said that URS responded to the request and will present its proposal. Chair Weiler told Mr. Andersen that he has opened a bill file for the phased retirement proposal, which will be addressed in the November meeting.

Mr. Andersen and Mr. Dee S Larsen, Legal Counsel, Utah Retirement Systems, addressed the committee. Mr. Andersen discussed phased retirement, retirement system audit recommendations, and public employees benefit program amendments. He referred to a letter in the mailing packet outlining URS's proposed legislation and informed the committee that URS is researching and working on the legislation with legislative staff. Mr. Larsen gave an overview of the proposals.

4. "Utah Retirement Systems Amendments" draft legislation

Mr. Larsen distributed "Summary of Items in the 2016 General Session Bill, 'Retirement Systems Amendments'" and draft legislation "Utah Retirement Systems Amendments" (2016FL-0441/007).

Mr. Larsen explained that URS annually proposes technical and administrative changes to legislation. He shared URS's approval process and highlighted the changes the legislation would authorize. He said the legislation would update the death benefit waiting period, classify retirement allowances based on professions, specify eligibility for coverage, define public safety administrative work, and clarify the vesting privileges of defined contributions. He invited those with questions or concerns to contact him before the legislation is brought before the committee.

Mr. Larsen and Mr. Andersen answered questions from the committee regarding death benefits and service credit calculations.

5. Utah Retirement Systems Benefit Claims

Mr. Larsen explained that the "Utah Retirement Systems Benefit Claims" proposal is in the initial phase of drafting. He outlined the need for clarified time limits for claims in order for all parties involved to function in a manageable way. He proposed that the timelines regarding four-year statute of limitations, statutory tolling, cause of action accrual, and insurance claim exceptions be updated.

6. Domestic Relations Retirement Shares (draft legislation)

Rep. Kay L. McIff presented draft legislation "Domestic Relations Retirement Shares" (2016FL-0162/008). He explained that the current law does not have a procedure to recognize a former spouse's interest in a deceased retiree's retirement. He informed the committee that this legislation was addressed in the 2015 General Session, where it passed in the House of Representatives. He announced that this draft of legislation is more complete.

Mr. Christensen elaborated on the definitions in the draft legislation.

Chair Weiler requested URS's insight on the draft legislation. Mr. Larsen explained that there are provisions in place to limit benefit costs.

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MOTION: Sen. Thatcher moved to adopt draft legislation "Domestic Relations Retirement Shares" (2016Fl-0162/008) as a committee bill. The motion passed with Rep. Miller voting in opposition and Sen. Davis, Sen. Dayton, Sen. Mayne, Rep. Duckworth, and Rep. Powell absent for the vote.

7. Other Items/Adjourn

MOTION: Rep. Cunningham moved to adjourn the meeting. The motion passed unanimously with Sen. Davis, Sen. Dayton, Sen. Mayne, Rep. Duckworth, and Rep. Powell absent for the vote.

Chair Weiler adjourned the meeting at 3:58 p.m.