
MEMORANDUM

DATE: August 11, 2009
TO: City Council Members
FROM: Sylvia Richards and Karen Halladay
SUBJECT: Utah Retirement Systems Fact Finding Briefing

Council Members:

During the retirement systems fact finding briefing, the Council will be hearing from Lyn Creswell, Director of Management Services, Bob Newman, Executive Director of the Utah Retirement Systems, and Lincoln Shurtz, Director of Legislative Affairs for the Utah League of Cities & Towns. The Administration has provided a transmittal and a number of attachments. Council staff has summarized some of the main issues as follows:

1. In 2008, the Utah Retirement Systems (URS) experienced a loss of approximately \$4 billion in their investment portfolio which may result in an increase in contribution rates from Salt Lake City.
2. If the Legislature makes no changes to the retirement systems, the City's general fund increase in contributions paid to URS could be \$3.6 to \$7 million.
3. The Legislature has indicated there may be structural changes made to the retirement systems during the next legislative session.
4. Salt Lake City has no role in this process; any changes to the retirement plans will be made by the Legislature. However, Salt Lake City is represented by the Mayor's Administration in the meetings with other jurisdictions, and they are working closely with the Utah League of Cities and Towns to define and recommend options that may be more palatable for Salt Lake City.
5. The Legislature has not made significant changes to the retirement systems for decades; however, the demographics of retirees are changing. Employees are retiring earlier and living longer.

Council staff has prepared a list of questions for the Council's consideration.

Understanding the Plan

- Which factors impact the various retirement systems' contribution rates and funding requirements?
- What is the difference between a Defined Benefit System versus a Defined Contribution System?
- To what extent has the market recovered since the \$4 billion loss was projected?
- Are there components in the systems which contribute to the funding shortfall each year?

Problem and Potential Changes

- With regards to the \$4 billion shortfall, what is the problem and whose problem is it in terms of budget, structure, etc.?
- When will the Legislature make their decision regarding whether to make changes to the retirement systems?
- Explain the loss of funding and the short and long-term implications.
- Which current aspects of the systems are driving up costs? Are there potential changes under consideration to address them?

Impact to City and City Employees

- If changes to the systems are made, what are the potential issues for Salt Lake City with regards to retaining and hiring employees?
- What are the legal ramifications associated with the potential changes?
- Would Salt Lake City's position be aided if Council Members became involved in lobbying efforts?
- What policy decisions could the Council make now which would help the pension fund in future years?
- With the proposed changes, what are the potential impacts to the City? In your opinion, what would be the likely result?
- Other entities have experienced mass retirements when pension plan changes are anticipated or made. Does Salt Lake City anticipate a similar problem?
- What is the City's level of preparedness regarding succession planning?
- What is the current City liability in terms of retirement, vacation and personal leave payout?

LYN L. CRESWELL
DIRECTOR

SALT LAKE CITY CORPORATION
DEPARTMENT OF ADMINISTRATIVE SERVICES

RALPH BECKER




David Everitt, Chief of Staff


CITY COUNCIL TRANSMITTAL

Date Received: _____
Date sent to Council: 5/27/2009

TO: Salt Lake City Council
Carlton Christensen, Chair

DATE: 22 July 2009

FROM: Lyn Creswell, Administrative Services Director



SUBJECT: Possible Changes in Utah Retirement Systems Rates and/or Benefits

STAFF CONTACT: Lyn Creswell, Administrative Services Director
801-535-7772

Gina Chamness, Budget Director
801-535-7766

Jodi Langford, Benefits Administrator
801-535-6616

DOCUMENT TYPE: Briefing

BUDGET IMPACT: None for the current fiscal year. Potential for significant impact in FY 2010-11.

BACKGROUND/DISCUSSION:

Executive Summary

Utah Retirement Systems (URS) experienced significant loss in its investment portfolio in 2008. This has resulted in a downward adjustment of the actuarial funding of each System administered by URS, and will likely result in an increase in contribution rates from participating entities, including Salt Lake City, in FY 2010-11. For Salt Lake City, if the State Legislature makes no changes to the State Retirement Systems, the General Fund increase in the pension contribution the City pays to URS on behalf of its employees could range from \$3.6 to \$7 million.

The State Legislature oversees URS, and is currently considering various changes in retirement plans to minimize the potential budget impact to the State. (Attachment A) These changes could affect the amount of the City's pension contribution, as well as the benefits offered to City employees. Any change in the Retirement Systems is likely to generate significant employee interest and concern. Salt Lake City's role in this process is limited; any potential changes to the Systems will be made by the State Legislature. The Utah League of Cities and Towns (ULCT) has created a forum for municipal employers and municipal employee groups to proactively engage the Legislature as it considers potential changes.

Following is a description of the current retirement benefits available to Salt Lake City employees, a more detailed discussion of the current condition facing URS, a description of the process the ULCT is facilitating, a discussion of some of the options being considered, and some concerns for Salt Lake City regarding potential changes in the Systems.

Salt Lake City Retirement Benefits

Salt Lake City participates in four of the six **defined benefit plans** the URS administers. Salt Lake City Firefighters are members of the Firefighters Retirement System. Salt Lake City sworn Police Officers are members of the Public Safety Retirement System. All other Salt Lake City employees are members of the Public Employees Contributory or Noncontributory Retirement Systems. The City makes a contribution to URS for each eligible employee based on a percentage of salary. The pension contribution rates for these Systems differ from one another and each rate may change from year to year. In addition, the benefits provided by each System differ from each other. The following table summarizes the Systems or plans currently provided to City employees, the differences in benefits offered by each System, the contribution rate for each System, and the amount included in the FY 2009/2010 General Fund budget for each System. A defined benefit system means that the overall investment gains or losses of the Retirement System do not affect the amount that retirees receive on a monthly basis.

Salt Lake City also participates in the URS **defined contribution plans** (401k and 457 deferred compensation plans.) A defined contribution system is one in which an employer or an employee makes contributions, but employees are responsible for making investment decisions themselves and also assume the risk of any losses. In this type of system, benefits are: 1) directly related to investment choices made by employees and 2) market performance.

Table 1: Summary of Retirement Plans Provided to SLC Employees

Type of System	Current Employees Participating	Benefits Offered	Contribution Rate	FY2009/2010 GF Budget
Public Employees Non-Contributory System/Local Government	1738 full time City employees hired after November 1986 and those employees who transferred during windows opened by the Legislature, excluding those identified below	<ul style="list-style-type: none"> • Defined Benefit • 30 year full retirement • Contributions to the system for the defined benefit are required to be 100% funded by the employer 	11.66%	\$6.3 million*
Public Safety Non-Contributory/Salt Lake City	486 sworn police officers	<ul style="list-style-type: none"> • Defined Benefit • 20 year full retirement • Contributions to the system for the defined benefit are required to be 100% funded by the employer 	35.71%**	\$9.6 million
Firefighters' Retirement System/Division B	314 firefighters	<ul style="list-style-type: none"> • Defined Benefit • Contributions to the system for the defined benefit involve a combination of employee and the employer funds (Contributory System) • Currently, SLC, like other municipalities, funds the employee's contribution to the defined benefit system. • 20 year full retirement 	9.68%***	\$2.2 million
Public Employees' Contributory System/Local Government	132 employees who were hired prior to November 1986 and who did not transfer to the Noncontributory System during the three windows	<ul style="list-style-type: none"> • Defined Benefit • Contributions to the system for the defined benefit involve a combination of employee and employer funds (Contributory System) • Currently, SLC funds the employee's portion to the System 	13.61%	The contribution amount is included in non-contributory # above
Executive Program	15 department directors, chief of staff, Executive Director of the City Council, City Engineer, and two executives from the Mayor's Office	<ul style="list-style-type: none"> • Defined contribution to executives who may opt out of URS 	Between 13% and 18%	\$300,000

* In addition, other funds, including the Airport, Public Utilities, and internal service funds also make contributions to the retirement system.

** Public Safety Noncontributory Retirement System/Salt Lake City contribution differs significantly from the other two systems for a number of reasons, including an unfunded liability (\$8 million) in the Salt Lake City public safety system at the time the City joined URS, as well as differences in the benefit packages offered and different actuarial considerations (age at retirement, number of years in system in retirement, etc) for this group. At the time Salt Lake City transferred the Public Safety Retirement for police officers to URS, the City's plan was negative \$8 million. The plan's liability – which was assumed by URS – has increased substantially due to benefit enhancements made by the Legislature and by other factors. Approximately 19% of the current 35.71% contribution pays the liability relating to the transferred plan.

*** Firefighters' Retirement System/Division B: The Firefighters retirement system is significantly different from the other Systems, in that there is an Insurance Premium Offset in the contribution rate. The Insurance Premium Offset consists of Insurance Premium taxes that are collected by the State Tax Commission from approximately 1500 insurance companies that provide business in the state of Utah. Insurance premium taxes include taxes on life insurance premiums and also insurance premiums for fire and allied lines (allied lines include coverage's for additional types of losses, which are closely associated with, and usually sold with, fire insurance).

****A small number of City employees are part of the Public Employees Contributory System. There are 132 City employees who did not take advantage of the three windows (1986, 1991, 1996) opened by the State Legislature to transfer to the Noncontributory System.

URS is a sub-division of the State of Utah and is governed by state statute: individual cities, counties, special districts, school districts, universities, etc, must participate in the system as it is defined by state legislation (assuming the agency offers a retirement benefit to its employees).

In addition, URS administers voluntary 401(k) and 457 plans for eligible employees. In some jurisdictions, employers may make contributions to a 401(k) plan for their employees, in addition to their contribution to the overall pension system. Salt Lake City makes contributions to a 401(k) for executive employees and a small number of employees who transferred from the contributory system to the non-contributory system during a window period described above.

Current Utah Retirement Systems Condition

Executive Director Robert Newman will provide information to the Council about the Utah State Retirement Systems. Attachments B, C, D & E relate to his presentation.

Although URS remains one of the top performing public pension systems in the nation, the Utah Systems as a whole experienced a significant loss of approximately \$4 billion in 2008 as a result of economic conditions. This has resulted in a downward adjustment of the actuarial funding of each System, and will likely result in an increase in contribution rates from participating entities for FY 2010-11. For Salt Lake City, an increase in the contribution rates would translate into an estimated \$3.6 - \$7 million General Fund expense. The State of Utah estimates their potential pension contribution increase from the State budget could be as much as \$75 million.

The Utah State Legislature has not made significant changes to the Systems for several decades, while the average age at which employees retire and the average length of retirement has changed significantly. Over the past several years, various pieces of legislation to change the Systems have been considered, without significant changes being made. Given the magnitude of the potential contribution rate increase for the State, Senate and House leaders have indicated that the Legislature may consider structural changes during the next legislative session. On 5 February 2009, URS provided the Retirement and Independent Entities Committee an overview of the Utah State Retirement System and outlined

potential changes to the System for the Committee's consideration. This presentation (Attachment A) provides the basis for some of the options being discussed.

ULCT Process

The Utah League of Cities and Towns (ULCT) has hosted a work group representing local government including cities/towns [represented by the Utah City Managers Association (UCMA) and by Salt Lake City], counties, special districts, city recorders, city finance directors, firefighters, police officers, fire chiefs, and police chiefs to engage the Retirement and Independent Entities Committee (a joint committee of the Utah State House of Representatives and the Utah State Senate). The ULCT evaluation will be presented during September interim. The City is presently represented in the ULCT process by Gina Chamness and Lyn Creswell, as members of the League Retirement Work Group, and by Lyn Creswell, who is a member of the Utah City Managers Association (UCMA) Retirement Steering Committee. Background information from the League is attached (Attachments F, G, and H). The ULCT information can be discussed in more detail during the Council work session.

A fundamental question addressed by ULCT's work group is the commitment of all participants to a defined benefit system. Group members indicated support for a defined benefit system, as opposed to a defined contribution or 401(k)-type system. Most members believe that a defined benefit system provides an important recruitment and retention tool for employees. Given that premise, the group is left to evaluate whether to support changes in how contributions to a defined benefit system are made, or whether to support changes in retiree benefits.

Gina Chamness and Lyn Creswell have met with the City's Benefits Committee to receive their suggestions and recommendations. The City's Benefits Committee is facilitated by City Benefits Administrator Jodi Langford and includes members representing police officers, firefighters, operations/maintenance/clerical employees, professionals, managers, and executives.

It is important to understand that although most Utah cities and towns participate in URS, changes in the Systems would not affect each city or town in the same way. Attachment I (prepared by UCMA) supports the conclusion that Utah cities and towns do not offer uniform retirement benefits to their employees. Any changes in the Utah State Retirement Systems will affect cities and towns differently. Also, information contained in the attachment demonstrates that within each city and town, changes would affect employee groups differently.

Effects of Potential Changes to Salt Lake City and its Employees

One option being discussed by the ULCT working group is funding any increase in contribution rate with an employee contribution. There is concern that any mandated employee contribution – which could result in continuing decline in employee base salaries – would be difficult for employees to assume. Such mandated employee contributions could continue until the State Fund recovers the losses from 2008.

Retention. Many of the options being considered by the League working group may have the unintended consequence of spurring the retirement of employees who are either currently eligible or nearly eligible to retire. This includes many experienced, senior managers and professionals from the City. In the Police Department, Police Chief Burbank believes that any significant changes to retirement benefits for retirement-eligible employees many result in the departure of many of the Police Department's senior managers. Such an exodus would leave a void of experience, which would take years to restore. It is likely that other City departments would experience similar losses among their experienced, retirement-eligible employees.

Hiring. The Legislature may also consider significant changes to the Retirement Systems for employees hired in the future. It is likely that the benefits of new Systems would differ from the current Systems. The City Administration is still evaluating how possible changes to the Retirement Systems would affect the City's ability to hire qualified job applicants.

The ULCT working group will continue to evaluate these issues in preparation for the Legislature's September interim. Action by the Legislature will likely take place during their regular session beginning in January of 2010.

List of Attachments

Attachment A – Utah Retirement Systems and Pension Reform: Retirement and Independent Entities Committee: February 5, 2009 (Presentation by URS Attorney Dan Anderson)

Attachment B – 2008 Utah Retirement System Comprehensive Annual Financial Report for the Year Ending December 31, 2008

Attachment C – Retirement Benefits (Presentation by Robert Newman, Executive Director, Utah Retirement System at Salt Lake City Benefits Committee meeting in June 2009)

Attachment D – URS Contribution Rates (email from Robert Newman, dated April 24, 2009)

Attachment E – Utah Retirement Systems: Retirement Contribution Rates as a Percentage of Salary and Wages: Fiscal Year July 1, 2009 – June 30, 2010

Attachment F – Why Reform the Utah Retirement System? (Utah League of Cities and Towns)

Attachment G – What is the answer/ (Utah League of Cities and Towns)

Attachment H – Local Government Retirement Modification Options: List of Options: June 26, 2009 (Utah League of Cities and Towns)

Attachment I – Municipal retirement benefits survey (Utah City Managers Association)

Utah Retirement Systems and Pension Reform

Retirement and Independent Entities
Committee

February 5, 2009

NCSL Language

- What is the Problem You are Trying to Solve?
- Why is This a Problem?
- Who is Affected by This Problem?
- Can You Quantify This Problem?
- Is This Problem Ripe for Solution?

What problem are we trying to solve?

- Cost?
- Portability?
- Choice?
- Budgeting?
- Liability?

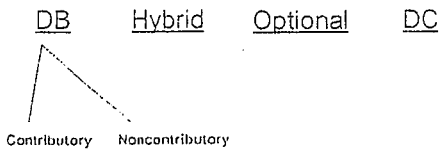
Role of Retirement Benefits

- A retirement benefit is a tool to accomplish the human resource goals of attracting, retaining and transitioning an efficient workforce.
- Any pension reform proposal must be analyzed in this context.

Risk Allocation

- Investment / Accumulation Risk
- Mortality / Longevity Risk

Spectrum of Retirement Plan Design



What Changes Can Be Made?

"Under the contractual view, state legislatures may *reasonably* alter the terms or modify the retirement system to improve it or keep it on a sound basis prior to retirement for purposes of maintaining the integrity of the system." (Italics in original)

Ellis v. Utah State Retirement Board
757 P. 2d 882, 886 (Utah App. 1988)

Possible Changes

(Tweaks to the Current System)

- Suspend / Lower 1.5% DC Contribution
- Suspend / Lower Post Retired DC Contribution
- Extend Final Average Salary period
- Make COLAs Discretionary / Delay COLA
- Increase Vesting Period
- Put a minimum age condition on the 30 year benefit (55, 57, 60, other?)

Possible Changes

(Tweaks to the Current System)

- Partial Benefit Payments Until Certain Age (Phased Retirement)
- Reduce the Multiplier (2% to 1.9%)
- Increase 20 Year Public Safety and Firefighter Requirement to 25 Years
- Put a Minimum Age Condition on the 20 Year Public Safety and Firefighter Benefit (48, 50, 52, other?)

Possible Changes
(Structural)

- Return to Contributory System
- Hybrid
- Optional
- DC

The 2008 Annual Report of the Utah Retirement
System is available online at urs.org.

Retirement Benefits

Noncontributory Public

- Benefit Formula: # years x FAS (3 years) x 2%
- Eligibility: 30 yrs/any age; 25 years/any age with full actuarial reduction before age 60; 10 years/age 62 with reduction; 20 years/age 60 with reduction; 4 years/age 65
- Option to leave surviving spouse a benefit by reducing member's benefit
- 4.0% COLA

Contributory Public

- Benefit Formula: # years x FAS (5 years) x 2% (1.25% multiplier for years prior to 7-1-75)
- Eligibility: 30 yrs/any age; 10 years/age 62 with reduction; 20 years/age 60 with reduction; 4 years/age 65
- Option to leave surviving spouse a benefit
- 4.0% COLA

Public Safety

- Benefit Formula: # years x FAS (3 years) x 2.5% first 20 years
years x FAS (3 years) x 2.0% years above 20
- Benefit cannot exceed 70% of FAS
- Eligibility: 20 years/any age; 10 years/age 60
- Automatic benefit for surviving spouse of 65%; 75% if member chooses to take a reduction
- 2.5% or 4.0% COLA

Firefighters

- Same benefit formula and eligibility as Public Safety
- Surviving spouse benefit is 75%
- 4.0% COLA

Factors In Setting Contribution Rates

- Assumed investment rate of return – 7.75%
- Actual rate of return
- Smoothing of gains or losses over 5 years
- Actuarial value of assets vs market value of assets
- Actual retirement patterns vs projected
 - years of service
 - age
- Mortality experience for active, retired, and beneficiaries
- Termination experience
- Salary increases
- Age of membership, i.e., members starting younger, older
- Inflation assumption
- Actual inflation which affects COLA
- 20 year fixed period over which actuarial gains and losses are amortized

From: Robert.Newman@urs.org
Sent: Friday, April 24, 2009 10:33 AM
To: Admin_Membership_Council@urs.org
Subject: Fw: URS Contribution Rates

Following is a response you may use to answer questions from participating employers regarding future contribution rate increases.

A message about contribution rates from Utah Retirement Systems' Executive Director Robert Newman.

Questions have been raised regarding the current economic environment's effect on Utah Retirement Systems' (URS) contribution rates. Contribution rates for the fiscal year July 1, 2009, to June 30, 2010, were set last year and will not be revised. These rates are available at www.urs.org in the "URS for Employers" link.

Contribution rates for the fiscal year July 1, 2010, to June 30, 2011, will likely increase by 2½-4% in the Noncontributory Retirement System and the Contributory Retirement System. This means the Noncontributory State and School System current rate of 14.22% will probably increase to 17-18%, and the Noncontributory Local Government System current rate of 11.66% will probably increase to 14-15%. Contribution rate increases in the Public Safety Retirement System and Firefighters' Retirement Systems will likely be 3½-7%.

These are only estimates and are provided to make participating employers aware of the potential fiscal impact of contribution rates in future years. Final contribution rates for the 2010-2011 fiscal year will not be available until September 2009. If you have questions please call Robert Newman, URS Executive Director, at 801-366-7302.

Utah Retirement Systems
Retirement Contribution Rates as a Percentage of Salary and Wages
Fiscal Year July 1, 2009 - June 30, 2010

	2008-2009 RATES			2009-2010 RATES			Increase (Decrease)
	Employee	Employer	Total	Employee	Employer	Total	
Public Employees							
Contributory Retirement System							
11- Local Government	6.00	7.61	13.61	6.00	7.65	13.65	0.04
12- State and School	6.00	9.73 1,2	15.73	6.00	9.73 1,2	15.73	0.00
Public Employees							
Noncontributory Retirement System							
15- Local Government	--	11.62	11.62	--	11.66	11.66	0.04
16- State and School	--	14.22 1,2	14.22	--	14.22 1,2	14.22	0.00
Public Safety							
Contributory Retirement System							
Division A							
22- State With 4% COLA	12.29	18.25 1,4	30.54	12.29	19.01 1	31.30	0.76
23- Other Division A With 2.5% COLA	12.29	11.22	23.51	12.29	12.47	24.76	1.25
77- Other Division A With 4% COLA	12.29	13.49 3	25.78	12.29	15.01 5	27.30	1.52
Division B							
27- Logan With 2.5% COLA	11.13	14.61	25.74	11.13	17.81	28.94	3.20
Logan With 4% COLA	11.13	17.58 3	28.71	11.13	21.24 5	32.37	3.66
29- Other Division B With 2.5% COLA	10.50	15.69	26.19	10.50	16.67	27.17	0.98
74- Other Division B With 4% COLA	10.50	17.90 3	28.40	10.50	19.17 5	29.67	1.27
Public Safety							
Noncontributory Retirement System							
Division A							
42- State With 4% COLA	--	29.55 1,4	29.55	--	30.18 1	30.18	0.63
43- Other Division A With 2.5% COLA	--	22.61	22.61	--	23.34	23.34	0.73
75- Other Division A With 4% COLA	--	24.91 3	24.91	--	25.90 5	25.90	0.99
48- Bountiful With 2.5% COLA	--	22.47	22.47	--	23.07	23.07	0.60
Bountiful With 4% COLA	--	25.85 3	25.85	--	26.82 5	26.82	0.97
Division B							
44- Salt Lake City With 2.5% COLA	--	35.71	35.71	--	35.71	35.71	0.00
Salt Lake City With 4% COLA	--	39.06 3	39.06	--	39.39 5	39.39	0.33
45- Ogden With 2.5% COLA	--	31.47	31.47	--	33.11	33.11	1.64
Ogden With 4% COLA	--	35.28 3	35.28	--	37.34 5	37.34	2.06
46- Provo With 2.5% COLA	--	29.84	29.84	--	30.91	30.91	1.07
Provo With 4% COLA	--	32.86 3	32.86	--	34.20 5	34.20	1.34
47- Logan With 2.5% COLA	--	25.48	25.48	--	27.74	27.74	2.26
Logan With 4% COLA	--	28.47 3	28.47	--	31.19 5	31.19	2.72
49- Other Division B With 2.5% COLA	--	25.49	25.49	--	26.21	26.21	0.72
76- Other Division B With 4% COLA	--	27.71 3	27.71	--	28.73 5	28.73	1.02
Firefighters' Retirement System							
Division A							
Gross Rate	15.05	9.21	24.26	15.05	10.78	25.83	1.57
Insurance Premium Offset	(1.91)	(9.21)	(11.12)	(1.56)	(10.78)	(12.34)	(1.22)
31- Net rate	13.14	0.00	13.14	13.49	0.00	13.49	0.35
Division B							
Gross Rate	16.71	4.09	20.80	16.71	4.61	21.32	0.52
Insurance Premium Offset	(7.03)	(4.09)	(11.12)	(7.03)	(4.61)	(11.64)	(0.52)
32- Net rate	9.68	0.00	9.68	9.68	0.00	9.68	0.00
Judges' Retirement System							
Gross Rate	0.00	27.83 1	27.83	0.00	30.92 1	30.92	3.09
Court Fees Offset	0.00	(14.32)	(14.32)	0.00	(13.83)	(13.83)	0.49
37- Net rate- Noncontributory	--	13.51 1	13.51	--	17.09 1	17.09	3.58

1 Includes funding of 3% Substantial Substitute based on salaries for all six

2 Does not include 1.5% 401(k).

3 For Public Safety units electing the 4% COLA during calendar year 2008 the new rate will go into effect on January 1, 2009 not July 1, 2009

4 The Rate showing for the State Public Safety is effective January 1, 2009 not July 1, 2009.

5 For Public Safety units electing the 4% COLA during calendar year 2009, the new rate will go into effect on January 1, 2010 not July 1, 2010.

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*
 - a. Current Retirees – No change in benefits
 - b. Active – Service earned – no change
 - c. Active – Future service – possible changes allowed
 - d. New Hires – Changes allowed
 - e. 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*
 - a. If possible allow for changes to be staggered or triggered by certain economic/market circumstances
6. *Look for a long-term sustainable system*
 - a. Don't just respond to the short term market
 - b. 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 3rd anniversary of the retirement or 1st 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

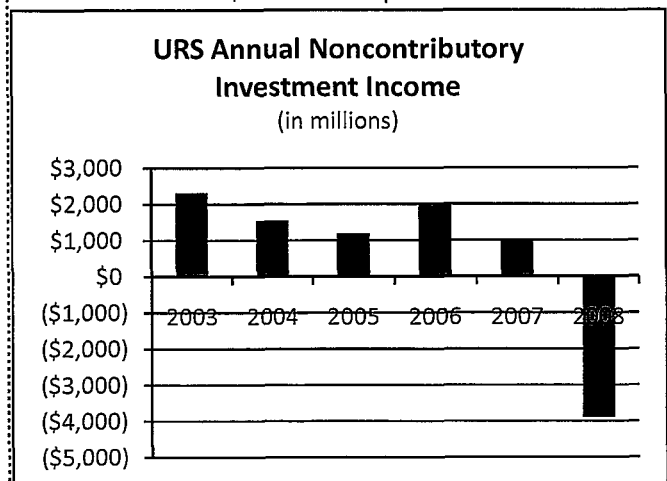
There is a lot of political momentum to reform or address this issue. Utah comparably has a very generous post retirement reemployment policy. However, the concern is if any changes can be applied to those currently in post-retired status.

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



Local Government Retirement Modification Options
List of Assumptions
June 26, 2009

CONTRIBUTION OPTIONS/ASSUMPTIONS:

Non-Contributory to Contributory Threshold:

Assumptions: Please evaluate the sensitivity of having a shared employer/employee responsibility for making a pension contribution. The idea being that the employer would make the contribution to a certain level (the current contribution level). After that level is reached, the employee would assume either partial or full responsibility for the remainder of the required contribution amount. Any amount contributed by the employee would be portable and would not be subject to vesting requirements.

BENEFIT OPTIONS/ASSUMPTIONS:

Option 1: Redirect the 1.5% 401K contribution to the URS

Assumptions: From this date forward the 1.5% contribution would be redirected to the URS System. This would apply to all current and future employees.

Option 2: Change the Final Average Salary (FAS) calculator from the highest 3 years of salary to the highest 5 years of salary

Assumptions: Those retiring prior to 2011 maintain 3 year (FAS); those retiring after 2011 but prior to 2013 get 4 year (FAS); those retiring after 2013 have a 5 year (FAS).

Rate Impact is between 0.74% to 1.74%

Option 3: Change the years of service multiplier from 2.0% per year of service to 1.9% per year of service

Assumptions: Apply to only future years of service, and only apply to those not eligible to retire.

Rate Impact is 0.67%

Option 4: Change the minimum age of retirement (55)

Assumptions: Change the minimum age of retirement to 55 and grandfather all those who are currently eligible to retire.

Rate impact is between 0.10% and 0.21%

Option 5: Change the minimum age of retirement (60)

Assumptions: Change the minimum age of retirement to 60 and grandfather all those who are currently eligible to retire.

Rate impact is between 0.68% and 0.77%

Option 6: Members pay full actuarial cost of retiring prior to age 65 if they have less than 30 years of service (rather than the 3% currently applied)

Assumptions: Apply to all current members of the system who are yet to retire

Rate impact is between 0.26% and 0.38%

Option 7: Defer the COLA to the 3rd anniversary of retirement or 1st anniversary after turning age 65.

Assumptions: Apply which ever comes first (age 65 or 3rd anniversary). No grandfathering

Rate impact is between 0.58% and 1.80%

Option 8: Move from a 20 to a 25 year retirement for public safety and firefighter retirement.

Assumptions: For new hires only

Rate impact is 0.39% to .42%

Option 9: Change post-retired employment and associated contributions

Assumptions: Those who are rehired after retiring would still draw a pension, but make a full contribution to the state retirement system, or could reactive and forego the pension to acquire additional years of service.

	Regular Employees					Public Safety		Firefighters	
	Total Non Seas Employees	Social Security	Additional	Total Base City Contribution	Possible Additional Match	Total Base City Contribution	Additional	Total Base City Contribution	Additional
Retirement Benefit Funded at a Floating Rate									
Salt Lake City	2707	Y	N	11.66%		35.71%	0.0%	9.68%	0.00%
Ivins	41	Y	N	11.66%		23.34%	0.0%	13.49%	0.00%
Enoch	35	Y	N	11.66%		23.34%	0.0%	N/A	N/A
Cedar Hills	24	Y	N	11.66%		N/A	N/A	N/A	N/A
Enterprise	6	Y	N	11.66%		N/A	N/A	N/A	N/A
Draper	97	Y	Y	11.66%	3.00%	23.34%	3% match	N/A	N/A
Syracuse	79	Y	Y	11.66%	4.00%	23.34%	4% match	13.49%	
South Jordan	304	Y	Y	12.65%	1.50%	23.34%	1% match	12.49%	1.00%
Farmington	53	Y	Y	12.66%	3.00%	23.34%	0.0%	13.49%	1.00%
Ephraim	33	Y	Y	14.66%		23.34%	3.0%	N/A	N/A
Saratoga Springs	56	N	Y	17.86%		26.21%	6.2%	9.68%	6.20%
Retirement Benefit Funded at a Stable Rate									
Clearfield	115	Y	Y	13.00%		23.34%	0.0%	N/A	N/A
Lehi	204	Y	Y	13.00%		23.34%	0.0%	13.49%	0.00%
Park City	489	Y	Y	13.26%	\$900	23.34%	0.0%	N/A	N/A
Springdale	31	Y	Y	13.65%		23.34%	0.0%	N/A	N/A
Provo	621	Y	Y	13.95%		30.91%	0.0%	9.68%	10.47%
Murray	416	Y	Y	15.86%		23.34%	0.0%	13.49%	3.00%
Riverdale	70	Y	Y	17.40%		25.90%	0.0%	13.49%	3.91%
Payson	118	Y	Y	17.90%		23.34%	0.0%	18.25%	
Spanish Fork	161	Y	Y	17.90%		23.34%	OT	N/A	N/A
Clinton	68	Y	Y	18.71%		23.34%	0.0%	13.49%	4.36%
West Jordan	432	N	Y	17.85%		26.21%	0.0%	20.30%	15.82%
Sandy	503	N	Y	17.95%		26.21%	OT	9.68%	8.27%
Orem	425	N	Y	17.90%	4.00%	28.73%	Y 4% FICA	9.68%	8.22%