UAC Moves Forward Thoughtfully On Retirement Reforms
by Adam Trupp, Utah Association of Counties

Background

Over the last six months the Utah Association of Counties (UAC) has brought together each of its affiliate groups to discuss the question of how to respond to the current condition of, and deficit in, the Utah Retirement System. UAC sponsored a number of meetings and has shared a great deal of information among its members while working to develop a position on whether changes should be proposed and, if so, what those changes should seek to accomplish. After substantial discussion, the Governmental Relations committee, a subcommittee of the larger UAC Legislative Coordinating Committee, was identified as the forum for collecting the opinions of affiliates and developing a position on this crucial issue until a solid position can be defined at the annual convention.

Throughout the discussions on this subject, the committee tried to keep a focus on a number of goals and guiding principles. These were defined early in our dialogue as follows:

- Fiscal responsibility of the state and local government must be considered
- Enhanced risk sharing between employees and employers is equitable
- A long-term sustainable system is a fundamental goal
- Legislative action should have a correlation to the market and enable responses to dynamic market conditions
- It is important to preserve and protect current benefits included in the defined benefit system (maintain commitment to the current promise and deal)
- Secondary principles:
  - HR concerns and possible impacts if a salary reduction is required
  - Disparity in impact between young and older employees—salary reductions disproportionately affect younger employees

At a meeting of the Governmental Relations committee on August 27, the committee adopted a position in support of modifying the terms of the Utah Retirement System. The position forwarded to the Legislature was to move as soon as practicable to a contributory system under which employees would contribute to the yearly rate increase set by URS. In future years, therefore, both employer and employee would contribute a percentage of the cost of the employee’s defined benefit plan. The terms of the contributory arrangement would include a smoothing of increases in contribution rates in order to protect the employee from major jumps in rates. Provision would also be made for providing a reimbursement to employees if the rates decreased in any single year. This option was identified as a contributory system with smoothing of impacts over time. The members proposed that this new structure apply to all current employees who had not yet reached thirty years within the system.

There was also substantial discussion among the committee members about changes to compensation for employees who retired from the system and then returned to work for an employer that participates in the retirement system. The committee took no position on this issue and did not develop any recommendations for changes during the summer. A number of ideas are still under consideration and will be decided upon as legislation moves forward. There is some consensus that the rich benefits available to post-retirement employees within county governments should be modified or curtailed.

Fiscal Implications of a Contributory System

Committee members concluded that the contributory option would enable counties to avoid any contraction of benefits for any members of the retirement sub-system and protect the long term stability of the defined benefit plan. As proposed, it would allow the state and local government employers to cap the employer contribution rate at the 2009-2010 rate (11.66% Local, 14.22% State, and 26-30% Public Safety), and require that participating employees contribute the remaining portion of the required, actuarially adjusted contribution rate for the 2010-2011 year (1.7% Local, 2.1% State and 1.8%-3.7% Public Safety) and all future years, where the rate is yet to be determined.

In addition, this recommendation anticipated that all employee contributions would be exempt from vesting requirements, thus increasing employee portability from URS. Those employees who do not stay with the system for the long term would take the benefit of their contributions when they leave. With the establishment of the employer contribution rate, it is anticipated that the employee contribution amount would float from year to year based on actuarial assumptions that will be made by the URS.
Also implicit in this recommendation are the assumptions that the amount of employee contribution increase would be limited to no more than 2.5% year over year, thus limiting employee exposure, and that if a rate decreased in any year, the employee would be entitled to a reimbursement from the employer through a contribution to a qualified retirement account. In addition, committee members believe that the system should be flexible enough to allow the employer to pick up the increase if they are willing.

This option also has the immediate benefit of putting money into the system during the coming fiscal year, thereby addressing the shortfall that is anticipated in the state budget and in county budgets.

We estimated that this structural modification to the system would cover the financial shortfall URS is facing for fiscal year 2011 through employee and employer contributions. The other benefit would be that the impact of increasing costs over the next few years would be shared by the employee and employer, thereby enabling employers to avoid cutting other benefits so that they could afford increases in the retirement system costs. The downside obviously is the downward pressure on employees’ take home pay over the next several years as increased costs are “smoothed.” While no one really liked this idea, there was a general consensus that some action would be taken by the state legislature to address the increasing cost of the retirement system. Many UAC members also raised concerns about the burden of increasing costs on counties and voiced their belief that some change in the current structure must be made.

**Moving Forward**

The proposal to move to a contributory system did not receive any substantial support as it was carried forward. In fact, one of the sentiments stated most frequently in responses by legislators and county officials, is that we should try to do our best to keep our commitments to current employees—people vested in and depending on the current structure of the retirement system. The contributory system would, in fact, put a burden on long term employees who have held their positions with an understanding of, and definition to, the benefits they would receive from their employer. Additionally, it would effectively hold employee salaries at current levels for the foreseeable future—in some instances causing employee salaries to slip backwards although benefits would remain stable. Finally, the long term costs of the system is not reduced by a contributory system but is only spread out. Despite this structural change benefits reductions may very well be needed in the future.

UAC has, therefore, stepped back from the earlier position and is taking the cautious approach of evaluating the needs and possible responses available to counties and what is coming from legislators. As you will see from the summary provided by the League of Cities and Towns in this publication, some other ideas have gained support within the Legislature. These ideas aim to balance the interests of employees currently paying into the defined benefit plan, and incoming employees who may be attracted by the long-term return of a defined benefit plan. These plans also would provide some flexibility for new employees not looking for a long-term pension, while allowing employers to maintain the capacity to offer valuable retirement benefits as an enticement to prospective employees.

What is generally accepted by the members of the committee, and a large portion of the UAC membership, is the conclusion that “doing nothing” is not an option. There are some immediate challenges that must be met and some long term issues that have to be addressed. We may put off major, long-term changes for a short period. But doing so is likely only to postpone, not eliminate, the need to make some hard choices. As with many areas of government funding in the current environment, elected officials must determine what they must provide and what they would like to offer.

UAC members have been carrying on this discussion throughout the year and will continue to do so. While a position on specific legislation will not be made until that legislation is introduced, we continue to work with members of the Legislature and with our own members to evaluate ideas and options consistent with the principles we established earlier this year to guide our deliberations.

Note: UAC is a non-profit corporation serving the educational and government relations needs of Utah’s 29 counties. The author is legal counsel for the corporation and an advocate on issues before the Utah Legislature. He can be contacted at adam@uacnet.org or 801.265.1331.