Designed to Ebb and Flow with Market:
Don’t Alter Retirement System Based on Short Term Investment Loss
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On February 5, 2009 URS’s legal counsel Dan Andersen presented to the Legislative Retirement and Independent Entities Appropriations Subcommittee meeting. Andersen discussed several different proposals to change the defined benefit (DB) and the defined contribution (DC) retirement plans.[2] During his presentation Andersen said, “URS isn’t making any recommendations regarding changes; they are only bringing forth information as a place to begin discussions for making adjustments to the system, if desired by the committee.” The possible changes URS presented included:

**Changes to the Defined Contribution Retirement Plan:**
- SUSPEND/LOWER the 1.5% contribution to 401(k).

**Changes to the Reemployed Retiree Benefit:**
- SUSPEND/LOWER Post Retired (“Double Dippers”) contribution to 401(k).

**Changes to the Defined Benefit Retirement Plan:**
- Extend final Average Salary Period (i.e. from 3 years to 5 years).
- Make COLAs Discretionary/ Delay COLA.
- Increase the vesting period (i.e. from 4 years to 6 years).
- Put a minimum age condition on the 30 year benefit (55, 57, 60, etc...).
- Partial benefit payments until certain age (phase 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,).
- Change to a contributory system. Employees are currently on a non-contributory system.
- Create a hybrid contributory/non-contributory system.
- Make the retirement benefit optional – employees can choose how they would like to participate at the time of hire.
- Turn the defined benefit system into a defined contribution (401(k)) system.

The Utah Public Employees’ Association (UPEA), the largest labor association for Utah’s public employees, established a taskforce of UPEA members in April 2009 to further research the retirement system’s defined benefit and defined contribution plans or “pension reform.”

UPEA’s taskforce interviewed legislative leaders, state retirement officials, health insurance experts, and others in order to prepare for the upcoming legislative session. Considering how public employees, public school teachers and school employees equate to 71%[3] of the active membership in the public employees contributory and non-contributory retirement systems, the UPEA taskforce also met and strategized with the Utah Education Association (UEA) and the Utah School Employees Association (USEA).

Employers and labor groups anticipated URS would be asking the legislature for a 3-4% contribution rate increase (or $80-100 million) in FY2011 to fund the retirement system. Meanwhile, on August 20, 2009 URS distributed the proposed retirement contribution rate increases. The public employees non-contributory and contributory retirement contribution rate increase is 2.1% for FY 2011,[4] as URS’ actuaries will smooth any retirement system losses and gains over the next five years.

According to the Pension Protections Act of 2006, Section 202 (1) (A), solvent public pension plans must remain at least 80% funded.[5] The funding ratio trend of URS is as follows:[6]

1990 – 74.6% 1996 – 83.5% 2002 – 101.9% 01/2008 – 94.6%
1991 – 77.6% 1997 – 85.0% 2003 – 91.5% 12/2008 – 83.7%
1992 – 78.0% 1998 – 89.1% 2004 – 94.0% 09/2009 – 84%
Since November 2009, URS has made a 13% investment return, a full 5.25% above their annual assumed rate of investment return. The data above shows how the increased return on investment enhanced URS’ total funding 2% from September to November this year. URS’ total funding increased 2%, exemplifies how the economy is recovering, and why the entire retirement system does not need to be changed immediately.

As an association, UPEA is concerned that some legislators may use the current economic climate as a justification for pension reform. As in past years, legislators have made attempts to make significant changes to URS. Although URS’ actuary presented specific projections to the Retirement and Independent Entities Committee on November 12, 2009, UPEA believes an independent actuary should review the projections and scenarios relative to the retirement system.

UPEA is aware of the budget shortfall and other multiple issues facing the legislature next year. Nevertheless, on Friday, December 11, 2009, Governor Herbert released his projected budget for the FY2011. Governor Herbert’s budget supports funding the entire 2.1% contribution rate increase for public employees contributory and non-contributory retirement systems. UPEA supports the Governor’s budget and his decision to not make any drastic changes to the retirement system or defined benefit that has existed since 1949.

UPEA recognizes the thousands of public employees across the state who have devoted their lives and careers to public service. During UPEA’s fifty year history as a labor association we have seen the development and deterioration of public employees pay and benefits; just as a legislator at the recent Retirement and Independent Entities Committee duly noted how Utah’s “public employees have been willing to give up salary increases for benefits, and it's not their fault the economy went upside down.” UPEA is adamant about preserving public employees’ retirement benefits. We will continue to oppose any legislation that may negatively impact the current retirement system or reduce an employee’s take home pay to maintain these benefits. The Utah Retirement building is named after UPEA’s founder and first president, Leonard W. McDonald, the architect of the Utah State Retirement System. UPEA intends to uphold this legacy.

Note: The Utah Public Employees Association (www.upea.net) is committed to serve its membership through education, information, and employee representation resulting in improved employee satisfaction, job security, benefits and compensation; thereby preserving the public trust with a quality workforce.


[9] Utah Retirement Systems. History of the Utah Retirement Systems: This is a history of public retirement plans in Utah from 1907-2003. It is the story of dedicated groups and individuals whose endeavors made possible an
efficient, independent retirement system on which all members present and future can depend. 2005. pg 38.