



To: Administrative Control Board
From: Lisa Hoffman, AGM
Date: May 17, 2024
Subject: Utah Retirement Systems – Tier 2 Employee Contribution

Action Requested

No action is recommended currently, this is for informational purposes only.

Background

In October 2023, the Utah Retirement System (URS) notified its employer agencies that contribution rates to the retirement system would be changing, with some significance, as of July 1, 2024. The more significant news was the Tier 2 Public Employee Hybrid system employer contribution rate was going from 9.82% to 10.7%. Going above 10% meant the employer contribution rate was maxed out and the 0.7% would need to be contributed by employees.

This increase in rates to the Tier 2 system is due to Utah's public sector experiencing significant wage growth over the past few years that resulted in larger than previously anticipated future benefits for members. Accordingly, increased contributions are required to fund the increased cost of the Tier 2 retirement system.

At the end of last year, there was some consensus that during the 2024 legislative session there would be legislation passed to increase the Tier 2 Public Employee Hybrid system max of 10% to say 11% or 12%, so employers could then pick-up the additional 0.7%, which was a similar practice done by the legislature when the Tier 1 system hit its max a decade or so ago.

Senate Bill 140 was run during the 2024 legislative session to authorize participating URS employers to elect to pay member contributions that exceed the contribution cap of 10%. This bill never made it out of the Senate Rules Committee.



At the conclusion of the 2024 legislative session, the URS finalized its rates for the fiscal year 2024-2025 and starting July 1, 2024 those employees in the Tier 2 Hybrid system will require a 0.7% employee contribution. This will be an after-tax contribution.

Government agencies around the state began discussions about how to deal with this new reality. While many remain still undecided, as the implementation date draws near, we do know that the State of Utah will give a .7% increase in wages for their employees in the Tier 2 System, URS is doing a 1% increase in wages, and Summit County staff is currently recommending to the Council a .95% increase. Summit County's recommendation will be taken to the Summit County Council for approval on June 5th. Other agencies are also considering instead of an increase to wages, an additional contribution to employees' 401(k) or 403(b) plans of 0.7 -1%.

District management has discussed this internally and agree with the idea of increasing Tier 2 employee salaries to accommodate the 0.7% increase those employees will now have to contribute. The District is proposing a flat 1% to take into consideration tax consequences.

In addition to the Tier 2 system rate changes, the Tier 1 system also had rate changes, however these changes were a decrease in employer contributions by 1%. This is the result of a more mature plan with lots of retirees and a pension liability that is almost fully funded. Accordingly, rates related to the Tier 1 plan will decrease by 1% on July 1, 2024 and therefore savings in the District's 2024 budget of approximately \$17,000.

Currently the District has 12 employees on the Tier 1 system, 16 employees on the Tier 2 Hybrid system and two employees on the Tier 2 DC only 401(k) system. With the \$17,000 of savings on the Tier 1 system this year, it would more than cover the 1% increase to wages for those in the Tier 2 system.

As mentioned previously, there is no action from the Administrative Control Board (Board) needed at this time, this is for informational and discussion purposes only. We will continue to gather information over the next month and bring this back to the Board for a vote at the June 20th meeting.