



2022 Proposed Legislation

Bill 1 – Statewide Retirement Plan

Bill 2 – Statewide Death & Disability Plan
Funding



Proposed 2022 Legislation

Presented By

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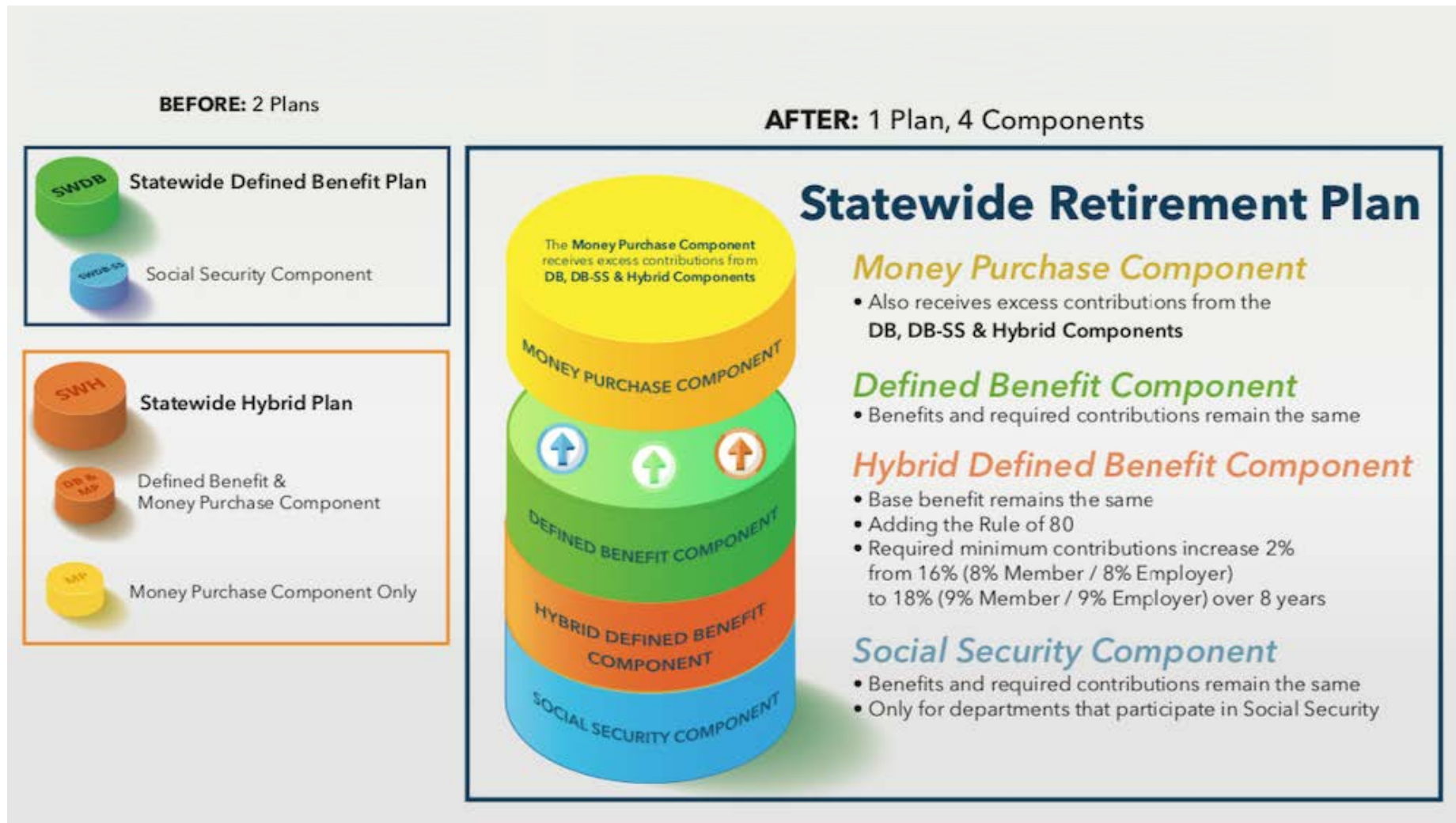
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Bill 1 – Statewide Retirement Plan (SRP)



Creation of a new plan

- Merge the Assets and Liabilities of the SWH, the SWDB, and the Social Security Supplemental Plan into the new Statewide Retirement Plan on an Actuarially Equivalent Basis
- Adjust the funding status of the SWH (129%) to match the funding status of the SWDB (100%)
 - Excess funding for SWH would transfer to increase annuity in the SWH-DB Component Benefit for service earned prior to merger
 - For example: 1.5 plan multiplier in the SWH-DB plan x 129% ~ 1.9 plan multiplier for all years prior to the merger

Creation of a new plan (continued)

- Benefit Adjustments would be equal for all defined benefit component members in the merged Plan;
- Allow SWH-DB plan members to retire under Rule of 80
- Increase minimum contribution rates to the SWH Plan from 16% to 18%; 1% member/1% employer - Implemented over 8 years
- Allow SWDB departments to have a 401(a) DC account (i.e. SWH-MP account)
- Most benefits and contributions in the new plans remain the same as in the predecessor plans for all members. Changes to the plan components after merger are highlighted on the following slides

Issue Summary

- SWH Plan over time will essentially become a closed plan
- At a 16% contribution rate, most of the required contribution goes to the DB portion of the plan
- Funding policy
- Members and employers would like Rule Of 80 retirement eligibility like SWDB
- Members and employers would like opportunity for DC contributions to the SWDB

SRP – Section 1 – Article 31.5, Part 1

- **Creates a new article:**
 - Title 31, Article 31.5 – FPPA Statewide Retirement Plan
- **The FPPA Board is the trustee and administrator; adopts definitions**
 - Establishes lifetime benefit components:
 - Defined Benefit Component – formerly the SWDB Plan
 - Social Security Component – formerly the Social Security Component of the SWDB plan
 - Hybrid Component – formerly the Defined Benefit Component of the SWH Plan
 - Establishes the Defined Money Purchase Component
 - Formerly the Money Purchase Component of the SWH Plan
 - Establishes accounting, plan administration, and authority to make rules

SRP – Section 1 – Article 31.5, Part 2

- **Membership participation**
 - Membership for participating departments
 - Newly affiliating departments
 - Department chief exemption
 - Reemployment

SRP– Section 1 – Article 31.5, Part 3

- Contributions and Service Credit
 - **Defined Benefit Component** (formerly SWDB Plan)
 - 12% member / 13% employer by 2028 as required by HB20-1044 for the SWDB
 - Change from the SWDB plan: allows local decision to make additional contributions into the Money Purchase Component
 - **Social Security Component** (formerly the Social Security Supplemental Plan)
 - Members also participate in Social Security. Contributions are one-half of the Defined Benefit Component
 - **Hybrid Component** (formerly SWH Plan)
 - Change from SWH plan: minimum contributions would increase from 8% member and 8% employer to 9% member and 9% employer beginning with a one-quarter % increase in 2023, to implemented over 8 years
 - Contributions in excess of amount necessary for fund the defined benefit go to the Money Purchase component
 - Provides for increased mandatory and voluntary contributions as determined locally and which go to the Monday Purchase Component
 - Provides for service credit purchases – no changes from predecessor plans

SRP – Section 1: Article 31.5, Part 4

- **Benefits in the Lifetime Benefit Components: Vesting and benefit eligibility**
 - Initial vesting – 5 years – unchanged
 - **Normal Retirement**
 - 25 years of service / age 55
 - Rule of 80 – Age plus years of service = 80; e.g. 30 years of service plus age 50
 - HB20-1044 established this for the SWDB plan ;
 - This legislation allows for Hybrid Component participants to have Rule of 80
 - **Vested Retirement**
 - Age 55 with at least 5 years of service
 - **Early Retirement**
 - Age 50 with at least 25 years of service – actuarially reduced pension

SRP – Section 1: Article 31.5, Part 4

- Benefits in the Lifetime Benefit Components: **Plan funding, actuarial valuation**
 - General Assembly declares contributions must be adequate to fund benefits
 - Annual actuarial valuation required
 - Periodic experience study of actuarial assumptions required

SRP – Section 1: Article 31.5, Part 4

- **Benefits in the Lifetime Benefit Components:
Adjustments to Maintain Actuarial Soundness of the plan**
 - If projected benefits exceed projected contributions, Board may
 - Cease COLA's going forward
 - Change the age of retirement up to age 60 going forward
 - Reduce the benefit multiplier to 2% for the Defined Benefit Component
 - Repeal amendments to the plan
 - Suspend participation in the DROP plan
 - Board may increase contributions if all above changes are implemented first
 - Board may reverse changes when the plan's funding supports it

SRP – Section 1: Article 31.5 Part 4

- **Benefits in the Lifetime Benefit Components**
 - **Defined Benefit Component Benefits:** 2.0% of highest average salary (HAS) for the first 10 years of service, 2.5% of HAS for each year of service after 10 years
 - **Social Security Component Benefits:** 1.0% of HAS for the first 10 years of service, 1.25% of HAS for each year of service after 10 years
 - **Hybrid Component Benefits:** 1.5% of HAS for all years of service
 - Change: Benefits for service credit earned or purchased prior to 1/1/2023 would be paid at a multiplier calculated by the Board estimated to be 1.9% based on plan funding at the time of merger. Service Credits awarded after the date of merger would accrue a benefit with a 1.5% multiplier

SRP – Section 1: Article 31.5 Part 4

- **Benefits in the Lifetime Benefit Components**
 - Optional Survivor Benefits at actuarially equivalent cost
 - Minimum benefit – member or survivor always receives equivalent of members contributions
 - Late retirement – may defer receipt of benefit to increase amount of monthly benefit
 - Deferred Retirement Option Plan (DROP) – may work for an additional five years after retirement, with employers consent, to accumulate retirement benefits prior to separation from service. Funds are invested through self-direction
 - COLAs

SRP – Section 2: Article 31.5, Part 5

- Money Purchase Component
 - 5 year vesting
 - Individual, self-directed accounts through a record keeper
 - Normal retirement age is 55

SRP – Section 1: Article 31-31.5, Part 6

- Amendment of the Plan
 - Board may modify the multiplier, retirement age, service requirements or contribution rates
 - Modifications require approval of 50% of members and 50% of the employers voting in the election to amend the plan
 - Legislature may also modify the plan through legislation

SRP - Sections 2, 3, 4, 5, 6, 8, 9, 11, 12, 13, 14, 15, 16, 17, 18, and 19

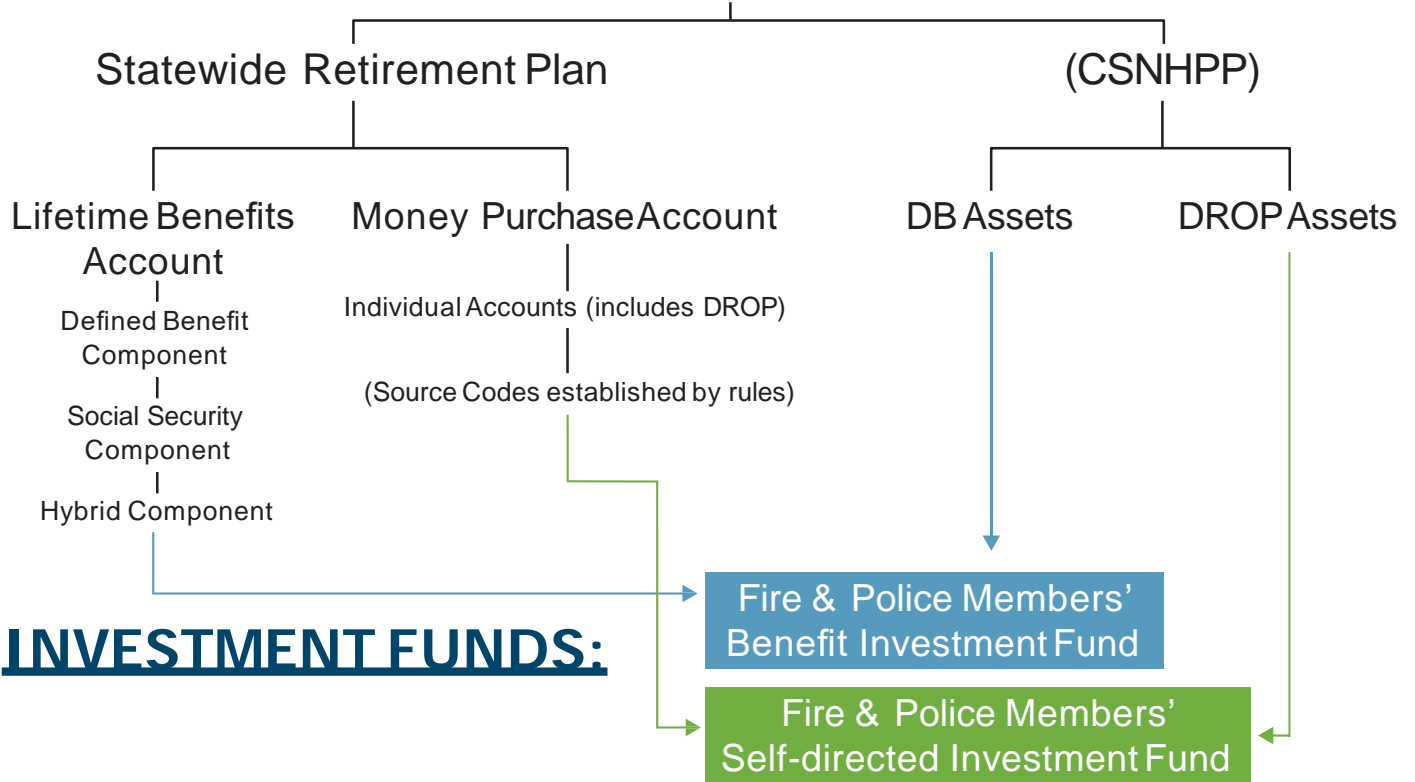
- Amends Title 31, Article 31, Parts 2, 4, 5, 7, 8, and 11
 - Makes conforming changes to references to the SWDB plan, the SWH, and the Social Security Supplemental plan
 - Adds Section 31-31-205 regarding the confidentiality of members protected personal information
 - Repeals obsolete sections of part 4
 - Amends the statute of limitation for filing death and disability applications from 180 days to 365 days

SRP - Sections 7, 10, 11, and 20

- Amends Title 31, Articles 31, Parts 4, 7, and 11
 - Adds new section 412 regarding the merger of the SWDB in to the Statewide Retirement Plan
 - Adds new subsections 31-31-704(1)(b) and 704.5(8) regarding merger of the Social Security Supplemental plan in to the Statewide Retirement Plan
 - Adds new section 31-31-1101 regarding merger of SWH plan in to the Statewide Retirement Plan

TRUST FUNDS:

Defined Benefit Trust Fund



INVESTMENT FUNDS:

TRUST ACCOUNT MAPPING:

CURRENT

New Hire Benefits Account (SWDB)

Actuarial Account →

Stabilization Reserve Account

Separate Retirement Accounts →

DROP Accounts →

SWH Plan Benefit Account

Members DB Account →

Aggregate (MP) Accounts →

PROPOSED

Statewide Retirement Plan

Lifetime Benefits Account

Money Purchase Account

Money Purchase Account

Lifetime Benefits Accounts

Money Purchase Account

INVESTMENT FUNDS:

Lifetime Benefits Account → Fire & Police Member's Benefit Investment Fund

Money Purchase Account → Fire & Police Member Self-directed Investment Fund

SRP, Sections 21 and 22; Repeal and Effective Date

- Sections 402, 403, 404, 405, 406, 407, 408, 410, 411, 601, 704.6, 704.7 and 1102 of Title 31, Article 31 are repealed as obsolete.
- Sections 2, 3, 4, 6, 8 through 19, and 21 of the bill take affect on January 1, 2023. All other sections take affect on the day following the expiration of the 90-day period after final adjournment of the generally assembly

Timeline and Background

- Creation of the Statewide Hybrid Plan
- Department Reentry
- Actuarial Studies
- Task Force
- Member and Employer Communication
- Board Direction
- Pension Review Commission

FPPA Communication & Education

- Two Phase Approach to Proactively Communicate Changes:
 - Phase 1:
 - Introduction of proposed changes prior to July 2021
 - Provide an opportunity for employers and members of the SWH Plan to comment
 - Phase 2:
 - Communication during the legislative process
 - Education, calculations, outreach following the passage of legislation (and prior to implementation of changes)

Plan and Membership Comparison

Statewide Hybrid Plan:

- Pension Liabilities: \$72,402,198
- Actuarial Value of Assets: \$93,703,562
- Funded Ratio: 129.4%

- Active Members: 367
- Retirees (includes DROP): 186
- Inactive Members: 44

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- Total Members: 597

Statewide Defined Benefit Plan:

- Pension Liabilities: \$3,230,485,701
- Actuarial Value of Assets: \$3,231,270,532
- Funded Ratio: 100.0%

- Active Members: 9,116
- In Pay (includes DROP): 1,918
- Inactive Members: 1,431

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- Total Members: 12,465

Statewide Hybrid Contributions (Current)

- **Required Contributions = 16% of Pensionable Earnings**
 - Required Member Contributions = 8% of Pensionable Earnings
 - Required Employer Contributions = 8% of Pensionable Earnings
- **Actual Contributions – SWH Plan**
 - 12 Departments (48 members) are contributing at the 16% rate
 - 1 Department (1 member) is contributing at a 17% rate
 - 40 Departments (369 members) are contributing between 18%-22%
- NOTE: There are 221 departments with active members currently contributing to the Statewide Defined Benefit Plan

Impact on the Statewide Defined Benefit Plan

- If all goes as expected and our actuarial assumptions are correct, then the defined benefits will not change at all
- If assets (underperform/over perform), then COLAs will be minimally (decreased/increased) as compared to the Statewide Defined Benefit Plan alone
 - Minimal because of the relative magnitude of the two plans
 - Approximate Asset Ratio of SWDB:SWH = 35:1
- Statewide Defined Benefit departments would now be able to choose to contribute to the money purchase component of the plan

Impact on the Statewide Hybrid Plan

- Long-term sustainability of the plan
 - Protection for adverse market experience
 - Funding and Benefit Adjustments are now in-line with the SWDB Plan
- Offers the Rule of 80
- Increased contributions allows for a greater allocation to DC Component
- Members who have contributed to the plan will receive the benefit adjustment
 - Members who are new to the plan will participate in plan experience

Impact on Statewide Hybrid Plan Member – Examples

	New Hire at Transition					Retire at Transition
	Sample 1	Sample 2	Sample 3	Sample 4	Sample 5	Sample 6
Age at Hire	30	30	30	30	30	30
Age at Retirement	55	55	55	55	55	55
Service at Retirement	25	25	25	25	25	25
Age at Transition	30	35	40	45	50	55
Transition Service	0	5	10	15	20	25
Post-Transition Service	25	20	15	10	5	0
Multiplier at Retirement	37.5%	39.5%	41.5%	43.5%	45.5%	47.5%
Increase Compared to 37.5%	0%	5%	11%	16%	21%	27%
Projected COLA Year 1	2.33%	2.06%	1.72%	1.30%	0.77%	0.26%
Projected COLA Year 11	2.70%	2.54%	2.33%	2.06%	1.72%	1.30%
Projected COLA Year 21	2.90%	2.82%	2.70%	2.54%	2.33%	2.06%
Age 65 replacement of income at retirement	48.1%	49.6%	50.7%	51.3%	51.4%	51.0%

Sample member hired at 30, works until 55

Impact on the Statewide Death & Disability Plan

- Plans continue to interact as they currently do
- No material impact
 - Implementing the Rule of 80 - Members may qualify for a normal retirement sooner and not be eligible for SWDD benefits

Bill 2: Statewide Death & Disability Plan Funding Request

- GRS completed a special study in May 2021 using the 1/1/2021 Actuarial Valuation results
 - Asked to perform an analysis on the sufficiency of the lump sum appropriation in 1997 from the State based on actual plan experience to date and current assumptions to determine liabilities
- The analysis estimates a funding shortfall of
 - \$31 Million based on experience through January 1, 2021
 - \$33 Million as of January 1, 2022 (rolled forward based on actuarial rate of return assumption)
 - \$35 Million as of January 1, 2023 (rolled forward based on actuarial rate of return assumption)
- Bill #2 sets payment of \$33.191 million on January 31, 2022
- Please refer to the GRS memo for a complete summary of assumptions and approach