



Be Ready for a Battle to Save our Defined Benefit Retirement Plan

...Chris Tea, OEA Exec. Bd.

Update on Retirement

Sen. Dan Liljenquist (Davis County) continues to work on proposals to reform the Utah Retirement System (URS) during the upcoming Utah Legislative Session. His latest reform proposal has three components:

Changes for New Employees

First, new employees hired after July 1, 2011, would be given a retirement choice between a defined contribution plan and a hybrid defined benefit/defined contribution plan. The defined contribution plan would include a contribution equal to 8 percent of the employee's salary into a 401(k). The hybrid option would also contribute 8 percent to the employee's retirement, but would split out approximately 5 percent to a defined benefit plan and 3 percent to a 401(k). The defined benefit portion of the hybrid option would change the current defined benefit plan rules for new employees after July 1, 2011, by:

...Making the hybrid plan contributory;

...Requiring a 35-year minimum retirement;

...Moving to a 1 percent service credit per year;

...Including a 2.5 percent COLA based on the consumer price index; and

...Moving to a five-year final average salary calculation (rather than the current three-year calculation).

There would continue to be a four-year vesting period under either option.

Changes to the Current System

Second, Sen. Liljenquist's reforms would end the 1.5 percent 401(k) contribution for all state employees, including educators. The money that would have otherwise funded the supplemental 401(k) contribution would be used to offset defined benefit rate increases.

Another aspect of this proposal would phase in higher minimum retirement service years depending on years of service already earned. For example, someone with 20 years of service in the URS as of July 1, 2011, would add one year and 9 months to the current minimum requirement. Someone with 10 years of service would add three years, 10 months. Those not yet vested (less than four years) would add five years to the minimum.

Post-Retirement Changes

The third and final component to the Senator's reforms would eliminate the defined contribution payment for employees who have retired and rehire after July 1, 2010. Pension payments would not be allowed for retired employees who rehire but additional years of service credit would be allowed for rehired employees. For retired employees rehired prior to July 1, 2010, the requirement for employers to make a 401(k) contribution would be eliminated and replaced with a requirement to contribute a percentage of the employee's salary to help stabilize the URS defined benefit fund.

UEA's Opposition

The UEA is opposed to all of Sen. Liljenquist's retirement reform proposals. We believe the current

system is sound and proposed changes are simply unnecessary. The Utah Retirement System's own board and officers say the URS remains financially sound and no changes are needed. The URS Annual Report says "Although everyone is being challenged in the current environment, the economy will recover as will the markets. We are positioning the portfolio today to take advantage of that eventual outcome. The portfolio is still statistically sound and has the strength to weather these temporary setbacks." (Bruce R. Cundick, URS Chief Investment Officer, URS Annual Report, April 2009.)

We are also concerned that Utah cannot attract and retain the best teachers if we continue to cut teacher compensation. Research shows a quality teacher can be the most important element in a child's education, yet too many good Utah teachers are leaving the profession after just five years, primarily due to inadequate compensation. The proposals being considered would further reduce teacher compensation by cutting retirement benefits.

Utah's teacher retirement program was created more than 80 years ago and continues to be an integral part of a total compensation package to attract and keep teachers, despite the fact Utah teachers are paid less than teachers nationally, in neighboring states or in other professions requiring similar training and work.

Stay Informed

Any changes would require legislative approval. The UEA legislative team is watching this issue very closely and is working with legislators and decision-makers to safeguard your benefits. The legislative team will keep you up to date and, if necessary, issue a call to action. **Stay tuned** to developments on the "UEA Under the Dome" website.

