UTAH

Utah – Tier II Contributory Hybrid and Tier II Defined Contribution

Type of Plan: Hybrid Defined Benefit Plan or Optional Defined Contribution Plan

Year Effective: 2011

Workers Covered: All full-time public employees hired on or after July 1, 2011 are eligible to choose between a hybrid defined benefit retirement plan and a defined contribution plan.

Active Participants: None to date.

Contribution Rate: Under the hybrid plan, employers pay up to 10 percent of each member's salary (12 percent for public safety workers and firefighters) to fund the hybrid defined benefit plan. Contributions in excess of the employer rate (currently 7.59 percent for public employees and 10.45 percent for public safety and firefighters) go into the defined contribution account. Employees are required to cover the costs of the defined benefit portion of the hybrid in excess of 10 percent. Members may make additional contributions to the defined contribution portion of the plan.

Vesting Schedule: Member contributions to both defined contribution plans vest immediately. Employer contributions to both the defined contribution plan and the defined contribution component of the hybrid plan vest after four years. Members vest in the defined benefit component of the hybrid plan after four years.

Investment Options: 11 core funds – including three asset allocation funds and eight individual funds – as well as a self-directed account option.

Origin of Plan: Prior to 2008, Utah's pension system had a 10-year average funded ratio above 90 percent, always paid the full annual required contribution, and had never borrowed from its pension fund. The market crash of 2008-2009 reduced pension assets by 16 percent. Actuaries predicted that employer contributions would have to increase by 75 percent over five years, eventually comprising 10 percent of the State's General Fund.

In response, Senator Daniel Liljenquist (R) led a pension reform initiative to reduce the State's future market risk by creating the Tier II Contributory Hybrid and Defined Contribution retirement systems. Under this tier, new hires are obliged to choose between a hybrid DB-DC plan or a traditional defined contribution plan. In addition to capping employer contributions, cost-cutting measures include a reduced benefit multiplier (from 2 percent to 1.5 percent), a longer required service period (from 30 years of service to 35), and a longer averaging period to calculate final salary (from high three to high five). The reform initiative generated protest among some state employees, but passed the legislature in 2010.

LEARN MORE

- Liljenquist, Dan. 2011. "Congressional Testimony on Public Pensions." Available at: http://www.danliljenquist.com/pension-reform/congressional-testimony-on-public-pensions.
- Utah Retirement Systems. 2007. "Conversion from a Defined Benefits Plan to a Defined Contribution Plan." Issues Paper. Salt Lake City, UT.