



OFFICE OF THE
UTAH STATE AUDITOR

News Release

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**Performance Audit Highlights Concerns About the Solvency and Lack of Transparency of the
Utah Retirement Systems**

The Office of the Utah State Auditor today released a performance audit of the Utah Retirement Systems' assumed investment rate of return

Salt Lake City, UTAH –

The Office of the Utah State Auditor recently completed a performance audit of the Utah Retirement Systems' (URS) assumed investment rate of return. The audit included a particular emphasis on assessing the current risk posed by URS' actuarial assumptions about future system returns, which play a role in dictating current contribution levels. If assumed rates of return are overly optimistic and not realized, contributions will be too low, leaving a burden of paying for retiree benefits on the backs of Utah's children, grandchildren, and future government employees.

The audit identifies two key areas of significant public policy impact.

URS' overly optimistic investment assumptions do not disclose key risks and place public employees' pension solvency at risk

Based on extensive assessment and modeling of the assumptions used by URS, the Office concludes that URS currently assumes an investment assumption that is overly optimistic. URS currently recommends an assumed investment rate of return of 7.50%, however, based on our analysis of forecasts provided by URS' actuarial consultant, the noncontributory pension system only has a 43% probability of meeting or exceeding a 7.50 percent return. A more realistic assessment of the data shows that URS has a 50% probability of meeting or exceeding a 6.8% return on its portfolio, after excluding an outlying investment consultant forecast.

At the current investment return assumption of 7.50%, URS reports that the system is only 78% funded. If the investment rate of return falls further, as is more than likely based on the best available data, the system risks becoming more underfunded.

If URS reduces its assumed rate of return by 0.25 percent, it would require an additional \$54 million in legislative contributions each year for the noncontributory state and school fund. A reduction in the return assumption by 0.50 % would require more than \$100 million in

additional annual contributions. The Office recommends the URS Board lower the systems' assumed investment rate of return. The Office also recommends that the Legislature immediately increase contribution rates to improve solvency, funding the systems at their desired level of risk.

Lack of URS transparency keeps critical information from policy makers

Contrary to best practices in all other western states, URS does not disclose actuarial reports regarding investment rate forecasts and other underlying assumptions to the stakeholders, including the Legislature, Governor, public employees, and citizens. URS claims that it is exempt from Utah's *Open and Public Meetings Act* and the *Government Records Access and Management Act*, though URS is statutorily defined as "an independent state agency" and relies on public funding to remain solvent. This lack of transparency does not permit policymakers and other stakeholders to accurately assess the systems' risk. The Office recommends that URS immediately adopt more transparent decision making processes and provide stakeholders with assumptions and methodology used in forecasting its investment rate of return. Further, the Office recommends that the Legislature clarify Open Government requirements for URS.

A copy of the presentation materials can be found at auditor.utah.gov

A copy of the audit report can be found at auditor.utah.gov/finAudit/rpts/2013/13-01%20URS-PA.pdf

About the Office of the Utah State Auditor

The Office of the Utah State Auditor provides Utah taxpayers and government officials with an independent assessment of financial operation, statutory compliance, and performance management for state and local government.

Specific activities of the Office include performing financial audits, conducting Federal funds compliance audits, providing local government oversight, conducting agency and program performance audits, performing fraud & compliance audits, and operating the State Auditor Hotline for citizens to report suspected financial issues or improprieties. These capabilities strengthen Utah State Government and help taxpayers have confidence in the integrity of Utah's government agencies.

The Utah State Auditor is a Constitutional Officer of the State of Utah, elected directly by the state's citizens every 4 years. The role of the Utah State Auditor is authorized in Article VII, Section 15 of the Utah Constitution. For more information, see auditor.utah.gov.

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