


**2017 REGULAR SESSION
ACTUARIAL NOTE HB 31**

<p>House Bill 31 HLS 17RS-473 Engrossed</p> <p>Author: Representative Frank Hoffmann Date: May 1, 2017 LLA Note HB 31.02</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>EG INCREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/TEACHERS: Provides relative to the reemployment of retired school psychologists in positions covered by the Teachers' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 31 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the *actuarial present value of future benefit payments*. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the *actuarial present value of future benefit payments and expenses*, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:	Actuarial Cost	
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
	Fiscal Cost	
Five Year Fiscal Cost Pertaining to:	Expenses	Revenues
The Retirement Systems	Increase	Increase
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

Current Law

Current law suspends the benefits of a reemployed retired member of the Teachers' Retirement System of Louisiana (TRSL). There is an exception for a retiree who is reemployed in a Reemployment-Eligible critical shortage position which is defined as:

1. A position for a full-time or part-time classroom teacher who teaches any student in kindergarten through twelfth grade in a school *where a critical shortage exists*;
2. A position for a full-time certified speech therapist, speech pathologist, audiologist, educational diagnostician, school social worker, or school counselor whose position of employment requires a valid Louisiana ancillary certificate approved and issued by the State Department of Education in a school district *where a critical shortage exists*

Benefits payable to a retiree reemployed in a Reemployment-Eligible critical shortage position are subject to the following suspension of benefit rules.

1. If a retiree is reemployed in a Reemployment-Eligible critical shortage position before the first anniversary of his original date of retirement, the retiree's benefit will be suspended until the earlier of the date he terminates reemployment and the first anniversary date of his original retirement. The retiree's income from reemployment is unlimited.

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2. If a retiree is reemployed in a critical shortage position thereafter, the retiree may continue to work in the Reemployment-Eligible position and earn an unlimited income from employment. He will also receive his full pension benefit as long as the Board of Elementary and Secondary Education and the board of trustees of TRSL have received certification that a critical shortage exists.
3. The employing school board must recertify annually to the Board of Elementary and Secondary Education and the TRSL board of trustees that a critical shortage continues to exist.

Proposed Law

HB 31 adds the position of school psychologist to the list of Reemployment-Eligible critical shortage positions.

Implications of the Proposed Changes

HB 31 permits a retired member of TRSL to return to work as a school psychologist and continue to receive his retirement benefit under certain circumstances. Under current law, pension benefits of a school psychologist are suspended if he is reemployed in a position covered by TRSL.

Proposed law does not change current law with regard to reemployment before the first anniversary of his original date of retirement. The retired school psychologist's pension benefit will be suspended until the earlier of the date he terminates reemployment and the first anniversary date of his original retirement.

Thereafter, he may receive his annual pension benefit (assuming the critical shortage position is certified on an annual basis) in addition to his employment earnings.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Actuarial Costs
(Prepared by LLA)**

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

As a result of HB 31, the actuarial present value of future benefits payable from TRSL is estimated to increase. Our actuarial analysis is summarized below.

a. *Category A: Retired Psychologist Is Already Reemployed*

A school psychologist has been retired for a year or more and has already returned to work in a critical shortage situation on a full time basis.

Example

1. A school psychologist has been retired for more than one year.
2. He has already been reemployed.
3. His salary as a school psychologist is \$48,000 a year.
4. His unsuspended pension benefit is \$30,000 a year. His benefit is suspended under current law and he is receiving \$0.

Benefits Payable by TRSL under Current Law

HB 31 is not enacted and the psychologist continues to be reemployed and earn a salary of \$48,000 per year. His pension from TRSL continues to be suspended and he continues to receive \$0 from TRSL for as long as he is reemployed.

Because he is not considered to be a "retired teacher" under current law, neither the reemployed school psychologist nor his employer will make contributions to the system, and the reemployed school psychologist will not accrue additional retirement benefits.

Benefits Payable by TRSL under HB 31

HB 31 is enacted and the psychologist continues to be reemployed and earn a salary of \$48,000 per year. He will also be eligible to receive his \$30,000 annual pension. He will continue to receive both his pension and his employment income for as long as he is reemployed and the critical shortage is certified annually.

Because he is considered to be a "retired teacher", the reemployed school psychologist and his employer will make contributions to the system, but the reemployed school psychologist will not accrue additional retirement benefits. Upon subsequent termination of employment, the reemployed school psychologist will receive a refund of his contributions without interest. Employer contributions will remain with the retirement system.

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Conclusion

TRSL's pension expenditures will increase \$30,000 a year with the enactment of HB 31. The system will collect contributions from both the school and the reemployed psychologist, with the employee contributions being refunded when the reemployed psychologist leaves active employment.

b. *Category B: Retired Psychologist Is Induced to Become Reemployed as a Result of the Enactment of HB 31*

A school psychologist has been retired for a year or more. He misses employment in the K-12 environment. The primary reason he does not become reemployed is that his pension from TRSL will be completely suspended. However, if HB 31 is enacted, the combination of his salary from employment plus his pension from TRSL may be enough to entice him to return to work.

Example

1. A school psychologist has been retired for more than one year.
2. His unsuspended pension benefit is \$30,000 a year.
3. His annual salary if he is reemployed will be \$48,000.
4. He currently does not expect to return to employment.
5. He will seek reemployment if HB 31 is enacted.

Benefits Payable from TRSL under Current Law

HB 31 is not enacted. The school psychologist will remain retired. He will not be reemployed. He will receive no reemployment income. He will continue to collect a pension of \$30,000 per year from TRSL. Obviously, no employee or employer contributions are payable to TRSL; nor does the school psychologist, who remains retired, accrue any additional benefits.

Benefits Payable from TRSL under HB 31

HB 31 is enacted and the retired psychologist becomes reemployed in a critical shortage situation on a full time basis. His annual income from employment will be \$48,000. TRSL will pay the psychologist \$30,000 a year in pension benefits. This amount will be paid to the psychologist for as long as the critical shortage is certified annually.

With the enactment of HB 31, the reemployed school psychologist becomes a "retired teacher". The reemployed retiree and his employer will contribute to the system; however the retiree will not accrue additional retirement benefits and his contributions will be refunded without interest when he terminates active service. The employer contributions will remain in the system.

Conclusion

TRSL's pension expenditures will remain at \$30,000 a year with the enactment of HB 31. The system will collect contributions from both the school and the reemployed psychologist, with the employee contributions being refunded when the reemployed psychologist leaves active employment.

c. *Statistical Analysis*

The cost of HB 31 depends on the number of retired school psychologists in Categories A and B. HB 31 will have an actuarial cost if there are any reemployed retired school psychologists in Category A. There is an actuarial cost because, in our opinion, there will be reemployed school psychologists who are continuing reemployment for more than one year. The actuarial present value cost will be small to negligible.

We were unable to develop a more precise conclusion about costs or savings associated with HB 31 because we could not obtain critical information. The following data would have been useful to us.

1. The number of school psychologist positions in the state of Louisiana.
2. The number of vacant school psychologist positions.
3. The number of school psychologist positions that are being filled by TRSL retirees.
4. The number of retired school psychologists in total, and the number who are between age of 60 and age 70.
5. A spreadsheet showing the number of active school psychologists by age and service, with the total salary being received by the psychologists in each cell.
6. A spreadsheet showing the number of retired school psychologists by age and the psychologists working status (either working or not working) along with the total pension benefit being paid by TRSL to psychologists in each cell.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 31 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

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The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from retiree to employee. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 31.
2. Employer premium expenditures may increase or decrease as a result of HB 31.

3. Other Government Entities

The actuarial cost of HB 31 associated with government entities other than those identified in HB 31, is estimated to be \$0. Our analysis is summarized below in Section II; Subsection C.

**B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)**

Unless indicated otherwise, the actuarial note for HB 31 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in HB 31 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 31 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)**

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

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The effects on retirement related fiscal costs or savings during the five year measurement period are shown in Table A and in Items 2 and 3 below. A precise cost or savings cannot be determined because the actual cost or savings depends upon the age, service, and salary characteristics of retired school psychologists who return to work and upon the ratio of school psychologists that continue reemployment to those who are induced to retire. The best information that can be given relative to retirement related fiscal costs or savings, based on the information available to us, is that costs will increase and that the increase in cost will be small; probably less than \$100,000 a year.

2. Expenditures:

- a. Agy Self-Generated Expenditures will increase under HB 31 because TRSL will distribute more in benefits each year under HB 31 than it will under current law.
- b. Expenditures from Local Funds will increase under HB 31 because school districts will contribute more per year, on average, to TRSL with the enactment of HB 31 than would have been contributed under current law.

3. Revenues:

- a. TRSL revenues (Agy Self-Generated) will increase each year if HB 31 is enacted because school districts will contribute more per year to TRSL under HB 31 than would have been contributed under current law.

**B. Estimated Fiscal Impact – OPEB
(Prepared by LLA)**

1. Narrative

Table B shows the estimated fiscal impact of HB 31 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

The effects on OPEB related fiscal costs and revenues during the five year measurement period are shown below in Table B and Items 2 and 3.

OPEB Fiscal Cost: Table B

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

2. Expenditures:

Expenditures by local school districts for medical benefits may increase or decrease depending on the employment status of employees and/or retirees and whether retirees pay a larger or smaller percentage of the medical premium. Eventually, however, the reemployed retiree will re-retire and the retirees share of the insurance premium will be the same it would have been had the retiree not returned to work. The state does not maintain sufficient records to enable us to determine how employer costs will be affected in individual school districts. In our opinion, the cost difference between HB 31 and current law will be negligible.

3. Revenues:

School district revenues (Local Funds) will not change materially with the enactment of HB 31 for the same reasons as cited above under Expenditures.

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**C. Estimated Fiscal Impact – Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Tanesha Morgan, Legislative Fiscal Office)**

1. Narrative

Present law provides that in certain circumstances a retiree may return to work in a "critical shortage area" (defined in present law) without reduction of benefits. Such circumstances include returning as a certified classroom teacher, as a certified speech therapist, speech pathologist, audiologist, educational diagnostician, school social worker, or school counselor. Proposed law adds school psychologist to the list of certified professionals who may return to work in a critical shortage area without reduction of benefits.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. However, there may be implementation costs to make minor software modifications to existing computer programs to identify members that are rehired under this measure. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)**

1. Narrative

Table D shows the estimated fiscal impact of HB 31 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

The "increase" amounts shown in Chart D are small to negligible in value.

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Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

Credentials of the Signatory Staff:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

John D. Carpenter, the Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

HB 31 contains a retirement system benefit provision having an actuarial cost.

One or more school psychologists will receive a larger benefit from TRSL under HB 31 than he would have received without HB 31.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

Senate

House

13.5.1 Applies to Senate or House Instruments.
If an annual fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Senate Finance

6.8F Applies to Senate or House Instruments.
If an annual General Fund fiscal cost \geq \$100,000, then the bill is dual referred to:
Dual Referral to Appropriations

13.5.2 Applies to Senate or House Instruments.
If an annual tax or fee change \geq \$500,000, then the bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

6.8G Applies to Senate Instruments only.
If a net fee decrease occurs or if an increase in annual fees and taxes \geq \$500,000, then the bill is dual referred to:
Dual Referral: Ways and Means