



**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

<p><b>Senate Bill 24 SLS 21RS-56 Engrossed with House Floor Amendments #3206 &amp; 3035</b></p> <p><b>Author: Senator Price Date: May 20, 2021 LLA Note SB 24.03</b></p> <p><b>Organizations Affected: Four State Retirement Systems: LASERS, TRSL, LSERS, and LSPRS</b></p> <p><b>EGF INCREASE APV</b></p>	<p><b>This Note has been prepared by the Actuary for the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.</b></p>	
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**Bill Header:** RETIREMENT BENEFITS. Provides a minimum benefit increase for certain retirees, beneficiaries, and survivors of the Teachers' Retirement System of Louisiana, Louisiana State Employees' Retirement System, Louisiana School Employees' Retirement System, and State Police Retirement System. (6/30/21)

**Cost Summary:**

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net Actuarial Present Values pertain to estimated changes in the *net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system*<sup>1</sup>. Net 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 local and state 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 *net 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 (i.e., contributions, benefit payments, and administrative expenses).

<b>Net Actuarial Present Values Pertaining to:</b>		<b>Net Actuarial Present Values</b>
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		0
Total		Increase
<b>Five Year Net Fiscal Cost Pertaining to:</b>	<b>Expenditures</b>	<b>Revenues</b>
The Retirement Systems – Agy Self Generated	Increase	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Increase	0
State Government Entities	Increase	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**

There are four state retirement systems: Teachers' Retirement System of Louisiana (TRSL), Louisiana State Employees' Retirement System (LASERS), Louisiana School Employees' Retirement System (LSERS), and State Police Retirement System (LSPRS).

Under current law, each of the four systems maintains a notional account, called an Experience Account (EA), that holds funds dedicated to providing cost of living adjustments (COLAs) or permanent benefit increases (PBIs) to certain eligible members of those respective retirement systems. There are numerous and complex statutory mechanisms or templates that govern the flow of funds out of the core pension funds and into the EAs, then out of the EAs and back into the core pension funds when a COLA is granted by the Legislature. The templates for each of the four systems are very similar, with the exception of different thresholds reflecting the relative sizes of the funds.

<sup>1</sup> **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note "Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution").

## 2021 REGULAR SESSION ACTUARIAL NOTE SB 24

Under current law, the board of trustees of a state retirement system may recommend to the Legislature that the system be allowed to grant a COLA to retirees and beneficiaries whenever specified conditions are satisfied and there are sufficient assets in the respective system's EA to fund that COLA on an actuarial basis. There is a cap on the amount that can be held in the Account.

The timing and amounts, as well as the eligibility to receive these COLAs are described in the law, in detailed rules covering: (a) how much and when automatic transfers into the EA from the core pension fund are triggered, (b) how much and when COLA grants are presented for the Legislature's approval under current law and (c) who is eligible for the COLA benefit increase.

These rules are often called the current statutory template for gain-sharing COLAs:

1. ***How much and when funds are to be transferred from the core pension funds*** (that are otherwise dedicated to providing all other plan benefits) to be credited to the respective EAs.

When these transfers occur, it causes an actuarial loss (reducing what would otherwise be gross actuarial gains) that must be financed by the state and participating local governments as part of their amortization payments needed to finance the unfunded actuarial liabilities.

Current law specifies that when the actuarial earnings generated by the respective funds in a given year exceed the actuarial assumed earnings by certain margins applicable to each system, the excesses above each margin are added to the respective EAs, subject to the statutory caps for each one. Interest earned on the balances of the EAs is also credited to the EAs, again, to the extent the balances do not exceed the statutory caps for each one.

Based on the results of the most recent actuarial valuations of the LASERS, TRSL, LSERS, and LSPRS, which were prepared by the Systems' actuaries as of June 30, 2020, the criteria were not satisfied for transferring funds into the EAs for the year ending June 30, 2020.

The costs of the Systems' gain-sharing COLA provisions are actuarially measured by projecting the *magnitude* and *frequency* of amounts transferred into the EAs from the core pension fund. The costs of the current COLA provisions are not incurred in the year when a COLA is granted by the Legislature, but are incurred every year there is a transfer into the EA, with each transfer financed over the subsequent 10 years. When transfers are made out of the core pension funds, the amounts are no longer available for the payment of core pension benefits (for retirement, death, disability and refunds of contributions), but are diverted to the EA where they remain dedicated and reserved for new COLA benefit increases upon the Legislature's approval. Those transfer events are what causes the costs to be incurred.

The *magnitudes* of the transfers for each System are expected to vary over time: sometimes substantial, sometimes negligible and sometimes in between. The magnitudes of these transfers depend primarily on the level of investment returns of the respective funds.

The *frequencies* of the transfers out of the core pension funds are expected to vary as well. They do not follow a predetermined pattern because they depend primarily on the level of investment returns and the funded ratios of the respective funds.

The frequency and magnitudes of transfers are reasonably measurable using accepted actuarial and statistics methods.

2. ***How much and when funds are to be removed from the EAs*** and returned to the core pension funds to offset a grant of a COLA authorized by the Legislature, which is associated *with how much and to whom* a COLA is granted.

Current law specifies that when the EAs hold a balance at least equal to a minimum level of COLA, the retirement boards may recommend to the Legislature that a COLA be granted. The Legislature is permitted to grant or not grant the statutorily specified level of COLA; or the Legislature may grant a COLA outside the statutory template, as it did in 2016 based on 2015 actuarial reports.

Based on the results of the most recent actuarial valuations of the LASERS, TRSL, LSERS, and LSPRS, which were prepared by the Systems' actuaries as of June 30, 2020, the EAs did not have sufficient balances to grant the minimum COLAs based on the year ending June 30, 2020 calculations.

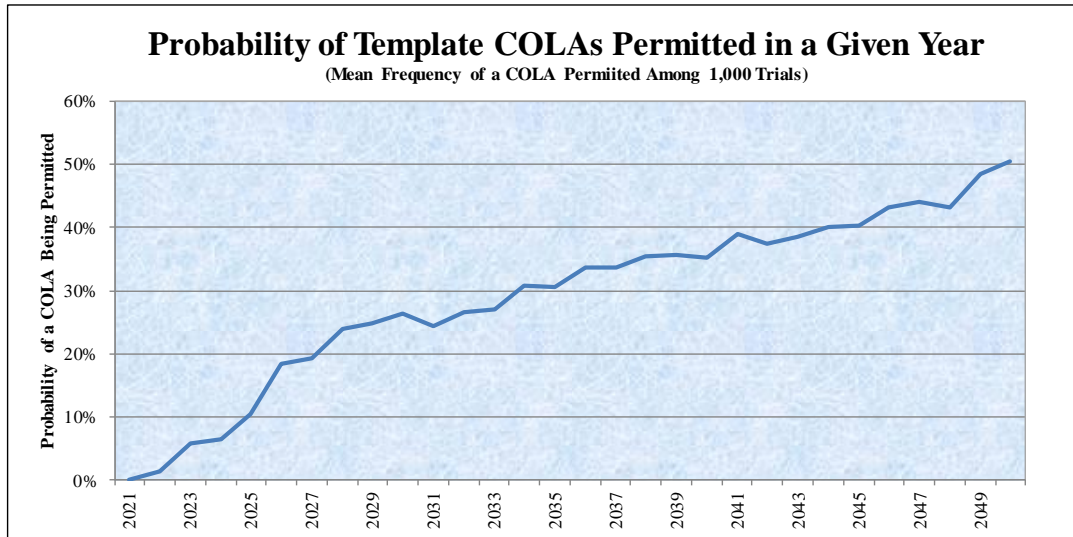
From 2011 through 2020, the Legislature granted the statutory template COLA every time it was permitted to do so upon recommendation of the boards. Furthermore, in 2016, it granted COLAs for each System outside the template, i.e., granted a COLA exceeding the amount authorized by the statutory template.

In recent actuarial studies, the Actuary for the Legislative Auditor has determined that conditions necessary for granting the statutory level of COLAs under the current template will be met with some regularity for all four State Systems.

Based on accepted actuarial forecasting techniques, the Actuary for the Legislative Auditor expects that the statutory template for LASERS would permit approximately one or two COLAs to be granted in the next 10 years, but approximately three in the following 10 years and four in the next following 10 years. These are rough approximations based on uncertain, but professional, simulations. Using accepted methods and taking into account all the moving part in the template, it is expected that template-driven COLAs will be permitted more frequently over the next 30 years.

**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

Consider the output of the LASERS simulations below, year by year.



A convenient way to understand the expected level of the current law’s template-driven gain-sharing COLAs is to ask: “How much *annual* COLA is actuarially benefit-equivalent (on average) to this complex statutory template?” In other words, “What would be an average equivalent *annual* COLA?”

Based on accepted actuarial forecasting techniques, the Actuary for the Legislative Auditor expects that the statutory template will produce gain-sharing COLAs that are benefit-equivalent to *annual* COLAs of approximately 0.40% every year for LASERS, 0.45% for TRSL, 0.50% for LSERS and 0.60% for LSPRS. The current law does not permit COLAs every year until the funded ratio for a system exceeds 85%, but expressing the benefit to members in terms of an *annual equivalent* COLA is a convenient way to convey the approximate level of COLAs that would have an equivalent benefit. It is assumed in these projections that the Legislature would grant the statutory COLA every time it would be permitted to do so, and not to grant one if it is not permitted to do so according to the template. Grants of COLAs outside the template (such done in 2016 and in this proposed bill) are not considered in these projections of equivalent annual COLAs.

This is how the current law functions, and how often the current law is expected to permit COLAs, and how much an *annual equivalent* COLA might be, for comparison purposes.

In the past 10 years, the statutory templates in place permitted the Legislature to grant COLAs in two years for LASERS and TRSL (which were granted, including one of the two in which the Legislature granted more than the template permitted), but statutory template did not permit COLAs in the other eight years. Similarly, for LSERS and LSPRS in the past 10 years, the statutory templates in place permitted the boards to recommend to the Legislature to grant COLAs in three years (which were granted, including one of the three in which the Legislature granted more than the template permitted), but did not permit COLAs in the other seven years.

**Proposed Law**

The proposed law temporarily interrupts the statutory template for gain-sharing COLAs in the four state systems. SB 24 grants a COLA outside the statutory template.

SB 24 grants a one-time, but permanent, benefit increase to eligible retirees and surviving beneficiaries in LASERS, TRSL and LSERS, and provides a one-time, non-permanent, lump sum payment (sometimes called a “thirteenth check”) to eligible retirees and surviving beneficiaries in LSPRS.

LASERS, TRSL, and LSERS

SB 24, relative to LASERS, TRSL, and LSERS, provides a monthly benefit increase for certain retirees and surviving beneficiaries for:

1. Any retiree who on June 30, 2021, meets the following criteria:
  - (a) He has 30 or more years of service credit.
  - (b) He has been retired for 15 years or more.
  - (c) He receives a monthly retirement benefit of less than \$1,450 dollars.
  - (d) He is at least 60 years of age.
  - (e) He has neither participated in the Deferred Retirement Option Plan (DROP) nor chosen the Initial Benefit Option (IBO).
2. Any surviving beneficiary of a retiree who would meet the above criteria if the retiree were alive.
3. Any unmarried surviving spouse, minor child, or mentally or physically handicapped child of a deceased member, which survivor is receiving a monthly retirement benefit of less than \$1,450 on 6/30/21, the deceased member would have met all of the following criteria:
  - (a) He had 30 or more years of service credit.
  - (b) He has been deceased for 15 years or more.

**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

- (c) He would have been at least age 60.
- (d) He did not participate in DROP.

Such increase will be in the form of an increase to a retiree's or surviving beneficiary's monthly benefit in an amount equal to the lesser of \$300 per month or the amount necessary to increase the monthly benefit to \$1,450.

If any surviving beneficiary to whom the proposed law applies is receiving a monthly benefit based upon an optional allowance pursuant to the current law, which amount is less than that received by the retiree while alive, the amount of the increase payable pursuant to the proposed law will be prorated based upon the option chosen.

Any unmarried surviving spouse, minor child, or mentally or physically handicapped child, who is receiving a survivor benefit under the current law will receive a benefit increase pursuant to the proposed law. Any person who is the sole survivor of such a member will receive the lesser of \$300 per month or the amount necessary to increase his monthly benefit to \$1,450. If there are multiple persons receiving such survivor benefits, an increase of \$300 per month will be shared equally among them.

Similar to any gain-sharing template COLA, SB 24 provides for offsetting the liability created by the benefit increase with funds removed from the EA and credited back into the core pension fund.

LSPRS

SB 24, relative to LSPRS, provides that a nonrecurring lump sum will be payable for certain retirees, surviving beneficiaries for:

1. Each retiree of the system, other than a disability retiree, who meets all of the following criteria:
  - (a) The retiree, or the retiree and an alternate payee both combined, receives a monthly benefit of \$2,500 dollars or less.
  - (b) The retiree has attained at least age 60 by June 30, 2021.
  - (c) The retiree has received a benefit for at least one year by June 30, 2021.
  - (d) The retiree has neither participated in the Deferred Retirement Option Plan (DROP), Back-DROP, nor Initial Benefit Option (IBO).
  - (e) The retiree was hired prior to September 8, 1978 and retired with 20 or more creditable years of service, or was hired on or after September 8, 1978 and retired with 25 or more creditable years of service.
2. Each surviving beneficiary receiving a benefit who meets all of the following criteria:
  - (a) The surviving beneficiary's benefit is not based upon the death of a disability retiree.
  - (b) The benefits had been paid to the retiree or the beneficiary, or both combined for at least one year as of June 30, 2021.
  - (c) The retiree would have attained age 60 by June 30, 2021.
  - (d) The retiree for whose benefit the survivor is a beneficiary, otherwise meets the eligibility criteria above.
3. Any person who receives a survivor benefit from LSPRS based upon a member's death in the line of duty as of June 30, 2021.
4. Any disability retiree, or a person who receives benefits from LSPRS based on the death of a disability retiree, as of June 30, 2021.

The nonrecurring lump sum payment, payable on August 31, 2021, is the lesser of:

1. \$3 dollars for each month of creditable service plus \$2 dollars for each month of retirement through June 30, 2021.
2. The member's current monthly benefit.

**Implications of the Proposed Changes**

Under SB 24, permanent benefit increases effective July 1, 2021 for LASERS, TRSL, and LSERS and nonrecurring lump sums payable on August 31, 2021 for LSPRS will be granted to eligible retirees and surviving beneficiaries.

The statutory template for granting gain-sharing benefit increases would not have permitted template-driven COLA increases this year, while the Legislature may always grant a COLA outside the template.

SB 24 authorizes one-time benefit increases outside the template for LASERS, TRSL and LSERS to specific categories of retirees and surviving beneficiaries based on certain criteria, using some of the same mechanisms already in the statutes for gain-sharing benefits. Also outside the template, SB 24 grants a specific level of non-recurring lump sum payment for LSPRS to select categories of retirees and surviving beneficiaries based on certain criteria, using some of the same mechanisms already in the statutes for gain-sharing benefits.

**I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]**

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

This section of the actuarial note pertains to net actuarial present value costs or savings associated with the retirement systems and with OPEB.

## 2021 REGULAR SESSION ACTUARIAL NOTE SB 24

### 1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be an increase in cost. The actuary's analysis is summarized below.

For LASERS, the Actuary for the Legislative Auditor estimated the amount of funds to be removed from its EA as of June 30, 2021 and credited back to LASERS' core pension fund to cover the increase in the actuarial present value of benefits for retirees and surviving beneficiaries because of the COLA granted in SB 24. This amount is estimated to be \$2.6 million for LASERS. This amount may change if a more thorough examination of participant data identifies more, or fewer individuals to be eligible. Using simulation models discussed above, the average actuarial present value at June 30, 2021 of *future costs* to LASERS over the next 30 years (future transfers into the EA from the core pension fund) caused by the current enactment of SB 24 is approximately \$1.4 million.

Based on estimates obtained by the Systems from their actuaries and shared with the Actuary for the Legislative Auditor, the amounts removed from the respective System's EAs as of June 30, 2021 is no more than \$14.9 million for TRSL, approximately \$1.7 million for LSERS, and approximately \$0.6 million for LSPRS. These amounts may change as a more thorough examination of participant data identifies more, or fewer individuals to be eligible. No simulation models were run for these three Systems (like we did for LASERS) to determine the actuarial present value of *future costs* to these Systems.

SB 24 causes an actuarial transaction to occur in the next actuarial valuation (as of June 30, 2021) with the removal of funds from the respective Systems' EAs and equivalent increases in the present value of benefits for the permanent benefit increases and nonrecurring lump sums granted. These actuarial transactions are merely reductions of the balances in the EAs and equivalent credits to the core pension funds (effectively, returning some of the EA funds back to the core pension fund from which they came) to offset the respective actuarial present value of the SB 24 benefit increases.

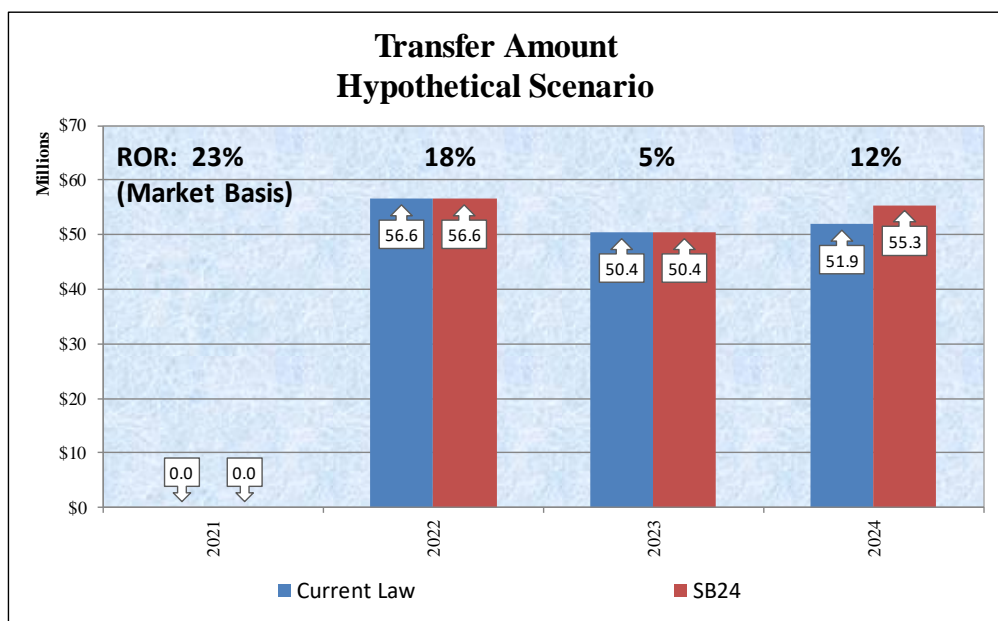
These actuarial transactions, by themselves, are not expected to cause an increase in the Net Direct Employer Contribution Rate for either FYE 2022 or FYE 2023. But there is, nevertheless, a very real actuarial cost to SB 24. As a general concept, benefits cannot be improved without there being a cost. Funding of the benefit increases provided by SB 24 by said actuarial transactions between the EA and the core pension fund delays the financing of this provision by employers, but it does not eliminate the cost.

Although the analysis presented below is limited to LASERS, general conclusions can be extended to all four systems. This analysis is based on data used in the June 30, 2020 actuarial valuation as provided by the System's actuary. Furthermore, the System's actuary forwarded 495 records identified by the System staff as potentially affected by the eligibility criteria in SB 24. Analysis by the Actuary for the Legislative Auditor found 179 surviving beneficiaries to be not eligible because the corresponding retiree benefits would not meet the criteria under SB24. The actuarial present value of minimum benefit increases for remaining 316 LASERS members was estimated to be \$2.6 million. This represents the amount that would be removed from LASERS' Experience Account at June 30, 2021 and credited back to LASERS' core pension fund to cover that increase in the actuarial present value of benefits for retirees and surviving beneficiaries because of the COLA granted in SB 24.

We ran 1,000 thirty-year simulations of future LASERS' actuarial valuations (30,000 actuarial valuations using different investment returns generated). These were run without SB 24 (current law) as a baseline, then they were run again under SB 24. A comparison of the range of possible versions of the future between the current law and SB 24 helps us understand the long-term effect of this bill.

Consider one hypothetical scenario from those simulations and the salient takeaways:

Assume LASERS' pension fund earns a market return of 23% for the year ending June 30, 2021, followed by 18%, 5% and 12% in the subsequent years. The following graph illustrates the future transfers (longer term costs) of estimated investment gains into LASERS' EA. This is just one sample out of all the simulations of the future.



## **2021 REGULAR SESSION ACTUARIAL NOTE SB 24**

Because the proposed law requires removal of approximately \$2.6 million out of the EA and a credit back into the core pension fund effective June 30, 2021, more investment gains can be transferred out of the core pension fund (costs) to the EA before the maximum balance is reached. This is why SB 24 has an actuarial cost – it allows the automatic template mechanism to transfer more funds (costs) out of the core pension fund and into the EA in future years.

Under this one scenario of the future, consider these takeaways:

- There is no transfer (other than the interest attributed to the beginning balance) projected for the year ending June 30, 2021. Even though the scenario here has a very good investment year on a market basis (23%), the template requires the use of a smoothed or actuarial rate of return. A few years of underperformance in the last five years prevents even a 23% market return this year from allowing a transfer into the AE. Under this scenario, transfers of similar magnitude are expected for each of the next three years. These transfers into the EA represent the cost (with and without SB 24) of providing COLA benefits for the next three years.
- The statutory cap on the balance in the EA is expected to be reached during the year ending June 30, 2024. A higher transfer (cost) is permitted for that year under SB 24 than under the current law. The difference for just these four years is approximately \$3.5 million (all in the fourth year).
- Each such transfer will result in a new UAL amortization base to be financed over a 10-year period. The base created as of June 30, 2024 is projected to be larger under SB 24 than under the current law.
- Under this scenario of the future, employer contribution rates for 10 years starting with July 1, 2025 are projected to be higher under SB 24 than under the current law.
- In addition, if the scenario were extended more years into the future, the effect of this year's COLA under SB 24 can be felt for more years, due to the workings of the statutory template.

The above scenario illustrates the delay in financing the minimum benefit increase provided by SB 24 facilitated by mechanics of the EA.

Considering all scenarios and all four Systems, the net effect of SB 24 is expected to be an increase in the actuarial present value of future benefits annual costs and in the annual fiscal costs.

### **2. Other Post-employment Benefits (OPEB)**

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance subsidies provided to retirees is not affected by adding permanent benefit increases or nonrecurring lump sum payments to specified retirement benefits.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

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

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

## **II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]**

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

### **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.

**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

**Retirement System Fiscal Cost: Table A**

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	Increase	Increase	Increase
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	0	0	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<b>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	0	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	\$ 0	\$ 0	Increase	Increase	Increase

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated in the table.

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

- a. Expenditures from LASERS, TRSL, and LSERS (Agy Self-Generated) will increase since benefits will be permanently increased for some members. The expenditure increases will begin July 1, 2021, for FYE 2022 and thereafter.
- b. Expenditures from LSPRS (Agy Self-Generated) will increase for FYE 2022 since nonrecurring lump sums will be paid to some members on August 31, 2021, but no increases thereafter.
- c. State and agency expenditures (State General Fund), relating to LASERS, TRSL and LSPRS are expected to increase. Exactly which year's investment returns will trigger a transfer to the EA from the core pension fund is not known with any certainty. For the purpose of this Table A, the first potentially increased transfer is expected in FY 2022-23 causing the first potential increase in employer contributions to be in FY 2024-25.
- d. Local government expenditures (Local Funds), relating to TRSL and LSERS are expected to increase. Exactly which year's investment returns will trigger a transfer to the EA from the core pension fund is not known with any certainty. For the purpose of this Table A, the first potentially increased transfer is expected in FY 2022-23 causing the first potential increase in employer contributions to be in FY 2024-25.

3. Revenues:

LASERS, TRSL, LSERS, and LSPRS revenues (Agy Self-Generated) are expected to increase as future transfers into the EA occur causing the employer contributions to increase. Exactly which year's investment returns will trigger a transfer to the EA from the core pension fund is not known with any certainty. For the purpose of this Table A, the first potentially increased transfer is expected in FY 2022-23 causing the first potential increase in employer contributions to be in FY 2024-25.

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

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. 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.

**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

**OPEB Fiscal Cost: Table B**

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

**III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]**

This section of the actuarial note pertains to annual fiscal costs (savings) relating to administrative expenditures and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

**Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)**  
**(Prepared by Bradley Cryer, Director of Local Government Services)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost impact of the proposed legislation on such local government entities. 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.

**Fiscal Costs for Local Government Entities: Table C**

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

The proposed legislation will have the following effects on fiscal administrative costs and revenues related to local government entities during the five year measurement period.



**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

2. Expenditures:  
No measurable effects.
3. Revenues:  
No measurable effects.

**IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]**

This section of the actuarial note pertains to annual fiscal cost (savings) relating to administrative expenditures and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

**Estimated Fiscal Impact – State Government Entities (other than the impact included in Tables A and B)**  
**(Prepared by Chris Keaton, Legislative Fiscal Officer)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost impact of the proposed legislation on such state government entities. 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.

**Fiscal Costs for State Government Entities: Table D**

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 Year Total</b>
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

The proposed legislation will have the following effects on fiscal costs and revenues related to state government entities during the five year measurement period.

2. Expenditures:

Other than the impact on employer contribution rates which is already reflected in Table A above, there is no anticipated direct material effect on governmental expenditures as a result of this measure.

3. Revenues:

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

**Credentials of the Signatory Staff:**

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

**Actuarial Disclosure: Risks Associated with Measuring Costs**

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51.

A full actuarial determination of the retirement system’s costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system’s contribution requirement and accrued liability are summarized in the system’s most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems’ Actuarial Committee (PRSAC).

**2021 REGULAR SESSION  
ACTUARIAL NOTE SB 24**

The actual emerging future experience, such as a retirement fund’s future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system’s funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan’s future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan’s funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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

SB 24 contains a retirement system benefit provision having an actuarial cost.

Some members of the Louisiana State Employees’ Retirement System, the Teachers’ Retirement System of Louisiana, the Louisiana School Employees’ Retirement System, or the Louisiana State Police Retirement System could receive a larger benefit with the enactment of SB 24 than what they would have received without SB 24.

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

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2021 regular session.

<u>Senate</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 Applies to Senate or House Instruments. If an annual fiscal cost $\geq$ \$100,000, then bill is dual referred to: <b>Dual Referral: Senate Finance</b>	<input type="checkbox"/> 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: <b>Dual Referral to Appropriations</b>
<input type="checkbox"/> 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: <b>Dual Referral: Revenue and Fiscal Affairs</b>	<input type="checkbox"/> 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: <b>Dual Referral: Ways and Means</b>