OFFICE OF LEGISLATIVE AUDITOR
2025 REGULAR SESSION
ACTUARIAL NOTE

Senate Bill 7 SLS 25RS-174	**Date: April 9, 2025**
Original	**Organizations Affected: All Public Retirement Systems**
Author: Hodges	
LLA Note SB 7.01	**OR SEE ACTUARIAL NOTE APV**

Bill Header: RETIREMENT BENEFITS: Requires fiduciaries of public retirement systems to make investment decisions based solely on financial factors.

Purpose of Bill:
Proposed law:
1. Specifies that in addition to the Prudent Man Rule outlined in R.S. 11:263, third-party service providers shall use only financial factors when making an investment of retirement system's assets.
2. Requires each retirement system to provide an annual report of all proxy votes to its board, and post it on a publicly available website.
3. Specifies that shareholder proxy votes shall be cast based solely on financial factors and the guidelines outlined in proposed law which specifically exclude any "action taken or a factor considered by a service provider to further environmental, social, political, or ideological goals, objects or outcomes," also defined as an "ESG Commitment" within proposed law.
4. Grants enforcement authority to the Attorney General if it is believed a service provider is "engaged in, is engaging in, or is about to engage in an ESG commitment" which violates proposed law.
5. Specifies that any damages paid to the state of Louisiana shall be used to pay down the "unfunded accrued liability" of the affected retirement system.

Summary of Impact[1]: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

The Actuarial Accrued Liability (AAL) of a retirement system represents the current asset value necessary to cover plan benefits for service rendered prior to the measurement date as long as future assumptions, most importantly the expected investment return, are realized. The AAL moves in the opposite direction to any change in the expected investment return, i.e. if the expected investment return goes down the AAL goes up. The change in the AAL represents the present value of the higher (or lower) future contributions that would be required to account for the expected reduction (increase) in future investment earnings.

While proposed law does not change retirement benefits, it makes several changes that the retirement systems believe will limit the universe of public and private investment consultants, managers, and proxy voting services willing to do business with Louisiana public retirement systems. In addition, as written, proposed law appears to prevent retirement systems from investing in comingled funds. If investment opportunities are limited because of these changes, the retirement systems may need to hire additional internal staff and adjust their asset allocations, ultimately lowering expected future investment returns.

Proposed law is expected to immediately increase the ***net actuarial present value of expected future benefits and administrative expenses*** incurred by the retirement systems, potentially by a significant amount. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation can be found in Section II: Fiscal Impact on Retirement Systems.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Increase	See Section II
Local Government Entities	Increase	0
State Government Entities	Increase	0
Total	**Increase**	**See Section II**

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
Local Government Entities	$ 0	$ 0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

[1] This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "**Information Pertaining to La. Const. Art. X, §29(F)**").

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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

2025 REGULAR SESSION
ACTUARIAL NOTE SB 7

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

The Actuarial Accrued Liability (AAL) of a retirement system represents the current asset value necessary to cover plan benefits for service rendered prior to the measurement date as long as future assumptions, most importantly the expected investment return, are realized. The AAL moves in the opposite direction to any change in the expected investment return, i.e. if the expected investment return goes down the AAL goes up. The change in the AAL represents the present value of the higher (or lower) future contributions that would be required to account for the expected reduction (increase) in future investment earnings.

While this bill does not change retirement benefits, some retirement systems and investment industry professionals have expressed concern about the potential for both headline and legal risk to third-party service providers associated with aspects of the proposed law. To the extent there is a significant impact, limiting both the pool of asset managers and asset classes, the anticipated result could be decreased investment returns and increased administrative costs leading to a significant increase in employer contributions over time. More specifically,

1. Proposed law specifies that shareholder proxy votes shall be cast based solely on financial factors and the guidelines outlined, which specifically exclude any "action taken or a factor considered by a service provider to further environmental, social, political, or ideological goals, objects or outcomes," also defined as an "ESG Commitment" within proposed law. This requirement can have different impacts depending on the type of investment being considered.

    a. Generally, comingled funds, including low cost, highly liquid, passively managed mutual funds and exchange traded funds do not grant proxy voting authority to investors. Therefore, as written, proposed law could potentially prevent retirement systems from investing in comingled funds. This limitation, especially for the smaller systems without internal investment or legal staff, is likely to increase administrative costs and restrict access to cost-effective investment options.

    b. Some retirement systems and investment industry professionals have expressed concerns that even if outside parties believe they are in full compliance with the proposed law as written related to the management of assets for Louisiana retirement systems, there is potential for both headline and legal risk for actions taken that are unrelated to the management of these assets. This exposure could discourage firms from partnering with Louisiana retirement systems, limiting both the pool of asset managers and asset classes.

    c. Similar concerns have also been raised regarding proxy voting services, given the limited number of firms who provide such services. Proxy voting services are of particular concern for LASERS, which currently manages approximately 40% of its portfolio in-house. However, to the extent proposed law results in other retirement systems transitioning to more direct equity investment, those systems would also be at risk for potential increased administrative cost to vote the associated proxies.

    The anticipated result would be decreased investment returns and increased administrative costs. **It is neither clear, nor determinable, if proposed law would have such an impact on the types and number of firms willing to partner with Louisiana retirement systems**.

2. Proposed law requires annual tabulation and public reporting of proxy votes, imposing additional administrative costs. While larger retirement systems may be able to manage these additional requirements with existing staff, smaller retirement systems are likely to incur additional expenses.

Variations in the size of the retirement systems significantly affect the required adjustments in contributions due to changes in investment earnings and administrative expenses. These adjustments are anticipated to range from several million dollars annually up to several hundred million dollars. Such changes would necessitate corresponding increases in employer contributions, directly reflecting the magnitude of these adjustments. As noted above, an increase in the AAL due to a reduction in the expected investment return represents the present value of these additional contributions. It should also be noted that any increase in the AAL would be reported on the plan sponsor's financial statements as an increase in the Net Pension Liability, potentially impacting that entity's credit rating.

The actual reduction in expected investment return for a given retirement system is highly dependent on that system's size, current asset allocation, and the ultimate need to make changes to comply with prosed law.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. 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: Retirement System Fiscal Cost

Expenditures	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**5-Year Total**
State General Fund	$ 0	Increase	Increase	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	Increase	Increase	Increase	Increase	Increase
Annual Total	**Increase**	**Increase**	**Increase**	**Increase**	**Increase**	**Increase**

Revenues	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**5-Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self-Generated	0	See below	See below	See below	See below	See below
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**	**See below**	**See below**	**See below**	**See below**	**See below**

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

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

1. Expenditures:

   a. Employer contributions (State General Fund and Local Funds expenditures) are expected to increase to compensate for any reduction in investment returns and increased administrative costs of the retirement systems. For State and Statewide retirement systems this could occur with the June 30, 2025 valuation which would first be reflected in the FY 2026-27 contribution rates.

   b. Administrative costs (Agy Self-Generated expenditures) are expected to increase immediately. Retirement systems, particularly smaller retirement systems, would incur additional one-time and ongoing expenses including, but not limited to, hiring additional staff. In addition, almost all retirement systems anticipate significant transactions costs in the near term to transition existing investments out of private equity and comingled funds into direct investment in public equities. Based on responses from the retirement systems, this is expected to range from $10,000s to $10,000,000s per year for both one-time transaction costs and ongoing additional staffing needs. For example,

      i. On the lower end, the District Attorney's Retirement System estimates, to the extent comingled funds are subject to proposed law requiring them to shift their investment to more direct equity investment where they can control proxy voting, they would need to hire approximately 3 additional investment staff members and experience increases in costs for outside legal and investment services and software, resulting in annual ongoing costs in excess of $300,000 per year.

      ii. On the higher end, the Teachers' Retirement System of Louisiana estimates it would need to hire approximately 58 additional investment staff to "actively manage public market investments" with a net cost (accounting for the reduction in external investment management fees) of approximately $44 million per year in compensation costs, plus the costs associated with additional office space and equipment.

2. Revenues:

   Generally speaking, public retirement systems have 2 primary sources of revenues, contributions (including, but not limited to employee and employer direct contributions, direct appropriations, ad valorem taxes, etc.) and earnings from investments. To the extent earnings from investments are expected to decrease, those additional funds will necessarily be replaced with increased contributions. Due to the nature of the annual contribution setting process, this will not necessarily be a 1-for-1 replacement in a specific year, but over the long-term these can be considered to fully offset. Therefore, for the purpose of this actuarial note, Agy Self-Generated revenues are treated as if they do not change.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Section II.

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Section II.

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

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

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

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).

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 at rates that differ from what was 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.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

☐ This bill contains a retirement system benefit provision having an actuarial cost.

No member of a retirement system would receive a larger benefit with the enactment of this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2025 Regular Session.

Senate

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

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

House

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

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