



**OFFICE OF LEGISLATIVE AUDITOR
2026 REGULAR SESSION
ACTUARIAL NOTE**

House Bill 42 HLS 26RS-279 Engrossed w/CCA Author: Bacala LLA Note HB 42.04	Date: June 1, 2026 Organizations Affected: TRSL EGC INCREASE FC GF EX See Note
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Bill Header: RETIREMENT/TEACHERS: Provides relative to a phased retirement program within the Teachers' Retirement System of Louisiana

Purpose of Bill: Proposed law 1) permits, but does not require, postsecondary education institutions to develop and implement a phased retirement program and provides for a reduced benefit payable to any member of the Teachers' Retirement System of Louisiana (TRSL) who qualifies for a phased retirement program, 2) provides that the employer shall pay the full amount of the TRSL Optional Retirement Plan (ORP) administrative fee, and 3) increases the employer contribution to an individual's ORP account from 6.2% to 8.0% of pay, subject to appropriations.

Summary of Impact¹: The estimated net actuarial and fiscal impact¹ of the proposed legislation is summarized below.

Proposed law is not expected to have an immediate impact on the *actuarial present value of expected future benefits and administrative expenses* incurred by the retirement systems. Over the long term, proposed law could increase the *actuarial present value of expected future benefits* incurred by the retirement system. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

This bill is subject to 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.

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:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	\$ 0	See Section II
Local Government Entities	0	0
State Government Entities	<u>See Section II</u>	<u>0</u>
Total	See Section II	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:	<u>Expenditures</u>	<u>Revenues</u>
Local Government Entities	\$ 0	\$ 0
State Government Entities	<u>0</u>	<u>0</u>
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

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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.

Proposed law makes three changes to present law:

1. Proposed law permits, but does not require, postsecondary institutions to develop and implement a phase retirement program and outlines what contributions and benefits will be paid during a phased retirement program for any member of TRSL.
 - a. Proposed law also outlines various aspects that must be included in the phased retirement program as the public postsecondary education system or institution level policy. Some key provisions include that the phased retirement program must:
 - i. Indicate the program is voluntary.
 - ii. Those eligible to participate in the phased retirement program must:
 1. Be eligible for retirement as provided in R.S. 11:761,
 2. Have at least 10 years of collective service at a public postsecondary education institution in Louisiana without a refund of employee contributions, and
 3. Be at least 59 ½ years old.
 - iii. The participation period must be no less than 12 months and no more than 36 months.
 - iv. The participant workload during program participation can be no less than 50% effort.
 - v. A prohibition on dual employment in any other position eligible for participation in another Louisiana public retirement system.
 - vi. Adoption of the program policy must be after July 1, 2027.
 - b. During the phased retirement period,
 - i. The member will receive a reduced benefit that is a pro-rated amount of their full retirement benefit based on the reduced percentage of work effort during the phased retirement program, and
 - ii. No employee or employer contributions will be required during the phased retirement period, and no additional benefit will accrue.
2. Effective July 1, 2026, present law provides that TRSL ORP administrative fee be split 50/50 between the employer and the employee, up to a maximum employee share of 0.05% of the employee's compensation. Proposed law provides the full amount of this fee be paid by the employer beginning July 1, 2027.
3. Under present law, employee contributions to the ORP are the same as is required for the defined benefit plan, generally 8.0%, and employers must contribute at least 6.2%. Beginning July 1, 2026, the employer contribution to the ORP would increase to 8.0%, subject to appropriations for the 1.8% increase.

Items 2 and 3 above have no actuarial impact but will be discussed further in Section II.

Item 1 above has a limited immediate impact and an indeterminable long-term actuarial impact. Given the implementation of a phased retirement program is optional, not mandatory, proposed law may increase plan liabilities. In particular, a phased retirement program has the potential to incentivize individuals to retire earlier than they otherwise might. Although a member's benefit may be slightly smaller when they retire earlier than otherwise assumed, that benefit is paid over a longer period of time and must be funded over a shorter period of time, which frequently increases both total liability and employer contributions.

The absence of both employer and employee contributions during this period, in particular employer contributions, also provides incentive for members and their employers to utilize this type of program. Retirement contributions consist of 3 primary parts. The cost of the benefit for an active participant attributable to service worked during the current fiscal year (normal cost), if not fully funded, a payment to fund benefits attributable to service worked in prior fiscal years (UAL amortization payment), and a contribution calculated as a percent of pay that is deposited into the PBI account, used to fund future permanent benefit increases (PBIs).

The UAL amortization payment is calculated as a specified dollar amount and is apportioned across all participating employers as a percentage of the salary of participating employees. Therefore, the total UAL payment in a given year does not change based on the number of participants, or the total payroll. However, the amount a given employer will pay does change based on that employer's payroll in relation to the payroll of all participating employees. Therefore, to the extent some employers take advantage of a phased retirement program, their UAL payment may decrease while the UAL payment of those who do not, or are unable to, take advantage of this program would increase.

In addition, if total payroll decreases, the actual funds deposited to the PBI account will be lower, potentially decreasing the ability to pay future PBIs.

The primary cost impact will be felt from a shift in retirement patterns, which will not be known unless, and until, the phased retirement programs are developed and implemented. A 1-year phased retirement program is unlikely to cause a large shift in cost, but the longer that time period extends, the larger the impact is likely to be.

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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	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
State General Fund	\$ See Below	See Below	See Below	See Below	See Below	See Below
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	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below	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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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. The ORP is a defined contribution plan available for academic and administrative employees of public postsecondary institutions and other constitutionally established boards which manage public postsecondary education institutions.
 - i. Proposed law increases the employer contribution to the ORP account from 6.2% to 8.0% of the employee’s compensation beginning July 1, 2026, subject to appropriations of the funds necessary for the 1.8% increase.
 - ii. Under present law, the administrative fee will be split 50/50 between the employer and the employee, up to a maximum employee share of 0.05% of the employee’s compensation. Proposed law provides the full amount of this fee be paid by the employer beginning July 1, 2027.

Any of the employers with members in the ORP will see increased expenditures (State General Fund). The increase in the employer contribution will be the largest driver of cost, assuming the funds are allocated. However, we are unable to estimate the exact amount of this change because recent legislation has expanded who may participate in ORP, allowed current ORP members to opt into TRSL’s defined benefit (DB) plan, and extended the length of time new employees may participate in the ORP before deciding if they wish to move to the DB plan instead. This is likely to result in large shifts in the ORP population over the next few years, and therefore large shifts in both ORP contributions and the administrative fee. The administrative fee is more difficult to estimate, largely because it consists of both fixed and variable amounts, where the variable amount is not set, but does depend on the number of participants in the ORP and the associated requirements to administer the plan.

- iii. Our best estimate for an increase in employer contribution equal to 1.8% of compensation is approximately \$8.8 million, based on annualizing July 1 – December 31, 2025 amounts. However, the increases would have been would have been approximately \$11.4 million for FY 2024 and \$10.8 million for FY 2025.
- iv. Our best estimate for the increase in the ORP administrative fee is approximately \$123,000, which is 50% of the total estimated \$245,000, based on annualizing July 1 – December 31, 2025 amounts. For reference, the total administrative fees were approximately \$316,000 for FY 2024 and \$298,000 for FY 2025.

- b. To the extent total payroll decreases due to the implementation of a phased retirement program, normal cost and PBI account contributions (State General Fund) will decrease.
- c. Administrative costs to make modifications to existing computer programs and update publications and educational/training materials would be minimal and can be absorbed within TRSL's existing budget.

2. Revenues:

Changes in retirement contributions identified as expenditures have corresponding changes in Agy Self-Generated revenues.

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.

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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 presented herein, we may have utilized commercially available valuation software. 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

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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.

Some members of a retirement system, or their beneficiary, could 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 2026 Regular Session.

Senate

- 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

- 13.5.2 Applies to Senate or House Instruments
If an annual tax or fee change \geq \$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 \geq \$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 \geq \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means