

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

<p>Senate Bill 11 SLS 17RS-40 Original</p> <p>Author: Senator Peacock Date: April 5, 2017 LLA Note SB 11.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana Louisiana School Employees' Retirement System</p> <p>OR SEE BELOW</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 modified by Act 353 of the 2016 Regular Session.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
---	--

**Bill Header:** RETIREMENT SYSTEMS. Provides for the incorporation of the Louisiana School Employees' Retirement System into the Teachers' Retirement System of Louisiana. (7/1/17)

**Cost Summary:**

The estimated actuarial and fiscal impact of SB 11 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the *actuarial present value of future payments for benefits and administration*. 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 administrative expenses*, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

<b>Actuarial Costs Pertaining to:</b>	<b><u>Actuarial Cost</u></b>	
The Retirement Systems		See Below
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		0
Total		See Below
	<b><u>Fiscal Costs</u></b>	
<b>Five Year Fiscal Cost Pertaining to:</b>	<b><u>Expenses</u></b>	<b><u>Revenues</u></b>
The Retirement Systems	See Below	See Below
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	See Below	See Below

**Bill Information**

**Current Law**

Under current law, the Teachers' Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS) are administered and maintained separately.

**Proposed Law**

The proposed law will re-designate the Teachers' Retirement System of Louisiana as the Teachers' Retirement Plan (TRP) and the Louisiana School Employees' Retirement System as the Louisiana School Employees' Retirement Plan (LSERP). The Teachers' Retirement System of Louisiana (TRSL) will then be established to provide for the administration and maintenance of both TRP and LSERP, each of which will constitute a qualified defined benefit plan under IRC Sections 401(a) and 414(d). The merger of TRP and LSERP will become effective July 1, 2017.

The board of trustees of LSERS will be terminated and all duties and responsibilities of that board will be assumed by the new TRSL board of trustees.

The new board of trustees of TRSL will be responsible for the general administration of the system comprised of TRP and LSERP and will include the following 17 members:

1. State superintendent of education, ex officio

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

2. State treasurer, ex officio
3. Commissioner of administration, ex officio
4. House retirement committee member, appointed by the speaker
5. Senate retirement chairman, ex officio
6. One member representing superintendents
7. One member representing colleges and universities, at large
8. Seven members from seven districts representing pre-K-12 teachers
9. One member representing school employees paid from school food service funds and members of LSERP, at large
10. Two members representing retirees of the system, at large

A special election will be held by October 1, 2018 to elect a trustee to represent school employees other than teachers, including the members of LSERP.

The assets of TRP and LSERP will be held in separate trusts by the new TRSL board of trustees and each trust will be used to provide the benefits to its respective plan members.

All LSERS contracts in effect as of July 1, 2017 will be reviewed.

All administrative functions will be transferred from TRP and LSERP to TRSL within a two-year period commencing on July 1, 2017.

The position of executive director at LSERS will be eliminated upon the effective date of this Act, and the new TRSL board of trustees will eliminate any further positions it deems necessary to create a more efficient system.

The new TRSL board of trustees will provide a written report to the House and Senate Committees on Retirement by December 31, 2017, on the implementation of proposed law, including an estimate of the savings resulting from such implementation. They will update their report at the first meetings of the Committees during the 2018 Regular Session and a final written report will be delivered to the Committees at their first meetings of the 2019 Regular Session.

### **Implications of the Proposed Changes**

SB 11 will merge TRP and LSERP into the new TRSL. Plan assets will be kept separate, but administration and maintenance of the plans will be combined under TRSL.

## **I. ACTUARIAL ANALYSIS SECTION**

### **A. Analysis of Actuarial Costs (Prepared by the 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**

The actuarial present value cost of SB 11 associated with the LSERP is expected to decrease. The actuarial present value cost of SB 11 associated with TRP will be \$0. Our analysis is summarized below.

SB 11 will not affect the benefits received by the members of TRP and LSERP. Therefore there are no actuarial present value costs or savings associated with benefit payments from either TRP or LSERP.

SB 11 should, however, create savings over the long term by combining the administration of the two plans into TRSL, by eliminating the position of executive director of LSERS, by eliminating other positions as necessary to create a more efficient system, and by eliminating the LSERS board of trustees. We have prepared this actuarial note assuming all administrative costs or savings will be borne by or accrue to LSERP.

The estimated actuarial present value cost or savings for administration associated with implementing and merging the old LSERS system into the new TRSL system can be separated into two components:

- a. **Immediate Component:** Administrative costs or savings associated with actions that must occur within the first year or so after the merger. These activities include items such as (1) combining the administration of the two systems, (2) eliminating the LSERS executive director position, (3) eliminating other redundant positions (4) eliminating the LSERS board of trustees, and (5) developing a strategy for creating additional savings in the future and reporting the strategy and estimated cost or savings to the legislature. Most of these costs and savings, which will occur in FYE 2018, can be identified and estimated. These costs and savings will be borne by or accrue to LSERP.

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

- b. **Future Component:** Administrative costs or savings that potentially will occur after the first report on merger strategies is delivered to the legislature. These costs or savings reflect the strategies developed in the first report to the legislature. No estimate of administrative costs or savings can be given relative to the *Future Component*. Present value estimates for the *Future Component* will depend on the recommendations and decisions made by the legislature and the new TRSL board of trustees. These costs or savings will be borne or accrue to LSERP.

The actuarial present value cost of the *Immediate Component* for LSERP is estimated to be negligible. The development of this estimate is shown below. In preparing this estimate, we have assumed that the report due to the Retirement Committees on or before December 31, 2017 will cost \$222,510. However, any of the items identified in the following table are likely to vary from the estimate provided. There could be costs associated with SB 11 or there could be savings. Any residual costs or savings will be borne by or accrue to LSERP. Ultimately, however, residual costs or savings will be borne by or accrue to the school districts that currently sponsor LSERS.

<b>Immediate Component</b>	
	Present Value of Costs or (Savings)
Eliminating the LSER Executive Director Position	\$ (190,760)
Eliminating Other Redundant Positions	0
Eliminating the LSERS Board of Trustees	(64,050)
Addition of a Trustee to the TRSL Board	5,300
Election of a Trustee to the TRSL Board	27,000
Development of a Merger Strategy	<u>222,510</u>
Net Cost or (Savings)	\$ 0

The actuarial present value cost or savings for the *Future Component* cannot be determined because costs or savings depend on the strategy and decisions that will be made in the future by the TRSL board of trustees. *Future Component* costs or savings will first be borne by or accrued to LSERP and ultimately by the school districts participating in LSERP.

**2. Other Post-Employment Benefits (OPEB)**

The actuarial present value cost of SB 11 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers is not affected by the merger of administrative services for TRP and LSERP.

**3. Other Government Entities**

The actuarial present value cost of SB 11 associated with government entities other than LSERP and TRP is estimated to be \$0. We generally concur with the analysis prepared by the LFO and summarized in Section II; Subsection C.

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

Unless indicated otherwise, the actuarial note for SB 11 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 the LLA)**

There is nothing in SB 11 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 SB 11 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

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 impact on fiscal costs or savings in Table A pertains only to *administrative costs or savings* associated with the LSERP. The estimated fiscal cost or savings associated with TRSL is estimated to be \$0.

SB 11 identifies specific actions that must be accomplished immediately after the merger of the plans occurs. SB 11 essentially establishes a common board of trustees for TRP and LSERP, dismisses the LSERS executive director and board of trustees, and requires the new TRSL board to develop (but not implement) an effective merger strategy that will enable TRP and LSERP to be administered efficiently. There is nothing in SB 11 compelling the new TRSL board to administer LSERP any differently than it is currently being administered.

**Fiscal Cost for Associated with LSERP and Its Sponsors: Table A**

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

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	See Narrative	See Narrative	See Narrative	See Narrative	See Narrative
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 Narrative	See Narrative	See Narrative	See Narrative	See Narrative

Fiscal costs or savings for administrative services related to the Immediate Component are expected to offset one another. Therefore the net fiscal cost or savings is \$0. The net fiscal cost or savings related to the Future Component cannot be determined at this time. All of these costs or savings will be the responsibility of LSERP.

The effect that SB 11 will have on retirement related fiscal costs and savings during the five year measurement period is shown in Item 1 – the Narrative and Table A above and in Items 2 and 3 below.

2. Expenditures:

- a. It is estimated that LSERP (Agy Self-Generated) expenditures toward implementing the merger will offset LSERP (Agy Self-Generated) savings. Any residual costs or savings will be treated by LSERP as an actuarial loss or gain, respectively.
- b. LSERP expenditures (Agy Self-Generated) will increase or decrease to the extent that employer contribution requirements increase or decrease.
- c. Expenditures from Local Funds will increase or decrease to the extent that the employer contribution requirements increase or decrease.

3. Revenues:

- a. LSERP revenues (Agy Self-Generated) will increase or decrease to the extent that employer contribution requirements increase or decrease.

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

1. Narrative

Table B shows the estimated fiscal impact of SB 11 on costs associated with OPEB and the government entities that sponsor these benefits. Fiscal costs in Table B include administrative costs 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.

As shown in Table B, SB 11 will have no effect on OPEB related fiscal costs or revenues during the five year measurement period.

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

**OPEB Fiscal Cost: Table B**

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</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>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</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

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

1. Narrative

Proposed law provides for the redesignation of TRSL as the Teachers' Retirement Plan (TRP) and LSERS as the Louisiana School Employees' Retirement Plan (LSERP) as qualified defined benefit plans under present law.

Proposed law provides for the establishment of TRSL as a qualified defined benefit plan for the purpose of providing the administration and maintenance of both TRP and LSERP.

Proposed law provides for the elimination of the position of executive director at the LSERS.

Proposed law provides for the termination of the LSERS board of trustees and the assumption of all duties and responsibilities by the TRSL board of trustees.

Proposed law provides for a special election to be held by Oct. 1, 2018, to elect a trustee to represent school employees other than teachers, including the members of LSERP.

Proposed law requires the board of trustees to provide a written report to the house and senate committees on retirement by Dec. 31, 2017, on the implementation of proposed law.

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

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</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>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</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

2. Expenditures:

*The LFO anticipates that any fiscal impact to the retirement systems as a result of this measure will be absorbed by the trusts of TRSL and LSERS. To the extent that the retirement system board does not fund expenses resulting from this measure, there may be an indeterminable cost to the state.*

3. Revenues:

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

**2017 REGULAR SESSION  
REVISED ACTUARIAL NOTE SB 11**

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

1. Narrative

Table D shows the estimated fiscal impact of SB 11 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.

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

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

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	See Above	See Above	See Above	See Above	See Above
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 Above	See Above	See Above	See Above	See Above

“See Above” refers to Section I; Subsection A and Section II; Subsection A and C.

**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, Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses in Section I; Subsection A and Section II; Subsections A and C.

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

SB 11 contains a retirement system benefit provision having an actuarial cost.

SB 11 does not contain any benefit provisions.

**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**