2018 REGULAR SESSION
ACTUARIAL NOTE SB 2

Senate Bill 2 SLS 18RS-26
Original

Author: Senator Peacock
Date: March 6, 2018
LLA Note SB 2.01

Organizations Affected:
Louisiana State Police Retirement System

OR $5,260,000 APV

This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.

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<u>**Bill Header:**</u> STATE POLICE RET FUND. Authorizes payments funded by the system experience account to certain retirees and beneficiaries. (2/3 - CA 10s29(F)) (6/30/18).

<u>**Cost Summary:**</u>

The estimated actuarial and fiscal impact of SB 2 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the ***actuarial present value of future benefit payments***. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

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

<u>**Estimated Actuarial Impact:**</u>

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

Actuarial Costs Pertaining to:		<u>**Actuarial Cost**</u>
The Retirement Systems		$ 5,260,000
Other Post Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		$ 5,260,000
Five Year Fiscal Cost Pertaining to:	<u>**Expenses**</u>	<u>**Revenues**</u>
The Retirement Systems	$ 6,361,750	$ 3,619,970
Other Post Employment Benefits	0	0
Other Government Entities	<u>0</u>	0
Total	$6,361,750	$ 3,619,970

<u>**Bill Information**</u>

Current Law

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 Experience Account to fund the COLA on an actuarial basis. Current law provides for an Experience Account in each state retirement system, which accumulates a specified portion of investment gains and is used to fund permanent benefit increases, otherwise known as cost-of-living adjustments (COLAs). 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.

Note: COLA grants are not automatic. Legislative approval is required before any such COLA can be granted.

Based on the results of the most recent actuarial valuation of the Louisiana State Police Retirement System (LSPRS), which was prepared by the system's actuary as of June 30, 2017, the criteria for granting a COLA have been satisfied, and approval is being sought from the legislature to proceed.

Proposed Law

SB 2 provides a one-time COLA of 1.6% to be granted by the system effective July 1, 2018 to qualifying retirees and beneficiaries, pursuant to current law.

Implications of the Proposed Changes

Under SB 2, a COLA of 1.6% will be granted to qualified retirees and beneficiaries effective July 1, 2018. Based on calculations by the system's actuary, it is expected that (a) $5,260,000 will be subtracted from the Experience Account and (b) actuarial liabilities will be based on benefit levels after the COLA is applied.

I. ACTUARIAL ANALYSIS SECTION

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

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

1. Retirement Systems

The actuarial cost of SB 2 associated with the retirement systems is estimated to be $5,260,000. The actuary's analysis is summarized below.

There is a difference between actuarial cost and contribution requirements. SB 2 causes an actuarial transaction to occur in the next actuarial valuation on June 30, 2018 with the subtraction of approximately $5,260,000 from the Experience Account and an equivalent increase in the present value of benefits for the COLA granted. This actuarial transaction itself is not expected to cause an increase in the Net Direct Employer Contribution Rate for FYE 2020. But there is, nevertheless, an actuarial cost to SB 2.

There are two ways to view the cost of this bill:

1. Any time benefits are increased; there is an actuarial cost to the system. The cost is equal to the actuarial present value of the COLA benefit increase, or about $5,260,000. To maintain fiscal equilibrium for the regular pool of assets, $5,260,000 needs to be transferred from the Experience Account to the regular asset pool. This transfer makes the regular asset pool whole. However, the balance of funds in the Experience Account is reduced and the value of the trust, in the aggregate, has also been reduced. Therefore, there is an actuarial cost to SB 2 and the system's liability has increased $5,260,000.

2. After the Experience Account has been drawn down, a portion of future investment gains must be deposited into the Experience Account in order to replenish the Account fund balance. The amount transferred are funds that would otherwise be used to increase or decrease employer contribution requirements. According to the funding policy stated in the law, the total amount of gain transferred to the Experience Account will be treated as an actuarial loss subject to amortization with level payments over a ten year period. The ten year cost is $723,994 per year.

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2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of SB 2 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 protection provided to retirees is not affected by adding a COLA to specified retirement benefits.

3. Other Government Entities

The actuarial cost or savings of SB 2 associated with government entities other than those identified in SB 2, is estimated to be $0.

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

Unless indicated otherwise, the actuarial note for SB 2 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report 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 2 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 associated with government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings in Table A include administrative costs associated with the retirement systems and the sponsoring government entities. The total effect of SB 2 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. Fiscal costs and savings include both administrative and actuarial costs and savings. 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.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 3,619,970
Agy Self Generated	548,356	548,356	548,356	548,356	548,356	2,741,780
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	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 6,361,750

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	723,994	723,994	723,994	723,994	723,994	3,619,970
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	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 3,619,970

SB 2 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from LSPRS (Agy Self-Generated) will increase since benefits will be permanently increased by the grant of the COLA. The expenditure increase will begin July 1, 2018. The actuary for the LSPRS estimated that annual benefit payments will increase $548,356 per year as a result of SB 2. Although Table A shows a constant amount from the 2018-19 fiscal year through the 2022-23 year, payment amounts will be at their largest amount for FYE 2019 with payments decreasing each year thereafter.

   b. General Fund expenditures have already commenced. A new amortization charge base was established when investment gains were initially transferred to the Experience Account.

3. Revenues:

   a. LSPRS will incur an increase in annual revenues. The annual increase ($723,994) has already begun and will continue until the end of the 10 year amortization period.

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

1. Narrative

Table B shows the estimated fiscal impact of SB 2 on actuarial costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs 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.

OPEB Fiscal Cost: Table B

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

SB 2 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by the LLA using information supplied by the LFO)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact (administrative and actuarial) of SB 2 on such government entities. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

SB 2 will have the following effects on fiscal costs and revenues related to government entities other than LSPRS and its sponsors during the five year measurement period.

2. Expenditures:

   a. There is no anticipated material effect on expenditures for governmental entities other than the retirement systems and their sponsors.

3. Revenues:

   a. There is no anticipated material effect on revenues for governmental entities other than the retirement systems and their sponsors.

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 2 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)

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 3,619,970
Agy Self Generated	548,356	548,356	548,356	548,356	548,356	2,741,780
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	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 1,272,350	$ 6,361,750

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	723,994	723,994	723,994	723,994	723,994	3,619,970
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	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 723,994	$ 3,619,970

Fiscal Costs Received by the LLA from the LFO

1. Narrative

Present law provides for cost-of-living adjustments (COLA) for retirees, survivors, and beneficiaries of the Louisiana State Police Retirement System under certain conditions. Proposed law retains present law and approves a COLA to be paid July 1, 2018, pursuant to the provisions of present law.

Fiscal Costs for Other Government Entities

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

SB 2 will have the following effects on fiscal costs and revenues related to government entities other than LSPRS and its sponsors during the five year measurement period.

2. Expenditures:

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:

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 contained herein.

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

[X] SB 2 contains a retirement system benefit provision having an actuarial cost.

Some members of the system will receive a larger retirement benefit if SB 2 is enacted than they will receive without SB 2.

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 2018 regular session.

Senate			**House**		
X	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**	X	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ $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 ≥ $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 ≥ $500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**