2019 REGULAR SESSION
ACTUARIAL NOTE SB 9

Senate Bill 9 SLS 19RS-92 **Original** **Author: Senator Peterson** **Date: March 18, 2019** **LLA Note SB 9. 01** **Organizations Affected:** **Louisiana State Employees' Retirement System** **OR NO IMPACT 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.** **James J. Rizzo, ASA, MAAA** **Senior Consultant & Actuary** **Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor**

Bill Header: STATE EMPLOYEE RET. Removes future employees of the Regional Transit Authority from the system and state civil service. (6/30/19)

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 costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. 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 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 ***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).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		$0
Other Post-employment Benefits (OPEB)		0
Total		$0
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post-employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Current law provides that all permanent employees of the Regional Transit Authority (RTA), other than the commissioners, the secretary, the treasurer, the general counsel, the general manager and his assistant, are classified employees in the state civil service system and are therefore eligible to participate in the Louisiana State Employees' Retirement System (LASERS).

In addition, full-time employees of the RTA are eligible to participate in LASERS.

Proposed Law

SB 9 provides that all employees of the RTA hired on or after July 1, 2019, will not be included in LASERS.

In addition, it provides that the portion of LASERS' unfunded accrued liability (UAL) existing on June 30, 2019 attributable to RTA will be determined by the actuary employed by LASERS and will be amortized and paid by RTA to LASERS over ten years. The amount will be paid in equal monthly payments, in the same manner as regular payroll payments to the retirement system.

Implications of the Proposed Changes

SB 9 prevents employees of RTA hired on or after July 1, 2019, from becoming members of LASERS, specifies that the actuary employed by LASERS will determine the portion of the UAL existing on June 30, 2019 and attributable to RTA, and requires that such amount be paid by RTA to LASERS in equal monthly payments over ten years.

I. ACTUARIAL ANALYSIS SECTION

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

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

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement system is estimated to be $0. The actuary's analysis is summarized below.

Currently, there are only two employees qualifying as permanent employees of RTA in the state civil service system. These two employees are members of LASERS, and there are no former RTA employees who have benefits rights: no retirees or vested terminations. Almost all those who currently provide regional transit services to RTA are employees of a contractor, not employees of RTA and are not members of LASERS.

The proposed legislation's closure of LASERS to new RTA employees only affects new employees of RTA, hired on or after July 1, 2019, not the two current employees whose benefits and rights would not change under this proposed legislation. The two current RTA employees will continue active membership in LASERS until their ultimate termination or retirement from RTA employment. Benefits and their payment timing are not being affected by the proposed legislation. With respect to the current employees, the net actuarial present value of future benefit payments and expenses are unchanged by the proposed legislation. Furthermore, to the extent that RTA would continue its past practice of employing only a few state civil servant employees, the proposed legislation would be expected to have no net actuarial cost or savings.

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 current liability for post-retirement medical insurance protection provided to retirees is not affected by excluding future employees of the RTA from membership in LASERS or by requiring RTA to pay a portion of the UAL.

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 ANALYSIS SECTION

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of SB 9 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	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	0	0	0
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

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

2. Expenditures:

The State General Fund expenditures are not affected by the proposed legislation. LASERS' (Agy Self Generated) expenditures are not affected by the proposed legislation.

The proposed legislation does not change the *regular actuarial funding* of LASERS, consisting of (a) a normal cost rate paid by RTA and calculated for the group in which the active RTA employees participate and (b) an amortization payment rate for financing the unfunded actuarial liability (UAL) that is shared by all LASERS' participating employers regardless of groups. Under current law and procedures, the normal cost rate and the shared amortization payment rate are applied to the salary of the RTA covered employees to determine the dollar amount of the RTA contribution obligation. The amortization payment rate shared by all LASERS' participating entities is affected every year by the degree to which the plan's emerging experience deviates from the actuarial assumptions. This procedure is not changed by the proposed legislation.

However, the proposed legislation provides for the initial determination (by LASERS' actuary) of the portion of the total UAL as of June 30, 2019 attributable to RTA's employees participating in LASERS, and provides for the payoff by RTA of that *RTA-specific UAL* as a flat dollar amount over 10 years.

The 10-year amortization of the RTA-specific UAL would not be equal to the amortization payment embedded in RTA's contribution rate under the current law. Whether RTA's required employer contribution would increase or decrease as a result of the proposed legislation would depend on the choice of methodologies available to LASERS' actuary for: (a) determining the RTA-specific UAL, (b) how the creation of a new RTA-specific UAL would affect the UAL financed by all other agencies, and (c) whether RTA will continue to pay a share of future actuarial gains and losses. Therefore, with respect to RTA alone, it will not be known until the next actuarial valuation is performed whether its expenditures would increase or decrease under the proposed law as compared to the current law.

Regardless of the method employed by LASERS' actuary, the contribution expenditures to LASERS for all Local Funds as a whole would be expected to have a slight temporary increase (commencing in the second year and continuing for 10 years) followed by a slight permanent decrease because a small portion of the total UAL would be amortized over a shorter period (10 years) than under current law. The changes would have a longer-term balancing effect since the early contribution increases would be actuarially equivalent to the latter decreases.

3. Revenues:

LASERS' (Agy Self-Generated) revenues from all participating entities would be expected to increase during the 5-year period for the reason cited above.

B. <u>Estimated Fiscal Impact – OPEB</u>
(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.

OPEB Fiscal Cost: Table B

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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

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.

C. <u>Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)</u>
(Prepared by Tanesha Morgan, Legislative Fiscal Office)

1. Narrative

Proposed law provides that full-time employees of the Regional Transit Authority (RTA) hired on or after July 1, 2019 shall not be eligible to participate in LASERS and shall not be employed in accordance with the constitutional provisions and rules and regulations pertaining to classified state service.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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

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

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. This measure prevents future RTA employees from participating in LASERS and from being considered as classified state employees.

Note: Currently, no RTA employees are a part of the state classified service system. Two RTA employees are currently active members of LASERS. They will be able to maintain their membership given the provisions in this bill.

3. Revenues:

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

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

   Table D shows the estimated fiscal impact of the proposed legislation 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	2019-20	2020-21	2021-22	2022-23	2023-24	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	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	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	0	0	0
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

<u>Credentials of the Signatory Staff:</u>

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

<u>Actuarial Disclosure: Risks Associated with Measuring Costs</u>

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

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

☐ SB 9 contains a retirement system benefit provision having an actuarial cost.

No member of LASERS will receive a larger benefit with the enactment of SB 9 than what he would have received without SB 9.

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 2019 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 the 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 the bill is dual referred to:
Dual Referral to Appropriations

☐ 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