

**OFFICE OF LEGISLATIVE AUDITOR
2022 REGULAR SESSION
ACTUARIAL NOTE**

Senate Bill 419 SLS 22RS-1221
Original
Author: Cathey
LLA Note SB 419.01

Date: April 9, 2022
Organizations Affected: TRSL, LSERS

OR INCREASE APV

Bill Header: TEACHERS RETIREMENT. Provides relative to the reemployment of certain retirees.

Purpose of Bill: This bill temporarily modifies restrictions related to allowable benefit payments for retirees of the Teacher’s Retirement System of Louisiana (TRSL) and the Louisiana School Employees’ Retirement System (LSERS) who return to active employment. Specifically, it allows TRSL retirees to return to active employment in certain positions and LSERS retirees to return to active employment in any covered position without a suspension or reduction of their retirement benefits through June 30, 2027.

Cost Summary¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

The net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems is estimated to increase because retirees who might otherwise have received a reduced benefit, or suspended their benefit altogether, will be eligible to receive their full benefit upon reemployment. In addition, some active employees who are currently eligible to retire but would not otherwise have made that election at this time may retire and immediately return to active employment. To the extent the retirees become qualified for active employee health care coverage during reemployment, OPEB costs and liabilities will decrease. On balance, the increase for the retirement benefits is expected to be larger than the decrease in OPEB costs, resulting in an overall net increase in net actuarial present values. The temporary nature of the changes serves to limit the overall impact.

In the following table, “Net Actuarial Present Values” pertain to estimated changes in the **net actuarial present value of future benefit payments and administrative expenses incurred by a retirement system or associated with an OPEB plan**. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems and OPEB.

Change in Net Actuarial Present Values Pertaining to:	
The Retirement Systems	Increase
Other Post-employment Benefits (OPEB)	Decrease
Total	Increase

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, OPEB cash flows, or cash flows related to local and state government entities.

In the following table, expenditures and revenues only include cash flows to or from the affected retirement system or OPEB plan, (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 and OPEB.


Five Year Net Fiscal Costs Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Other Post-employment Benefits (OPEB)	Decrease	0
Local Government Entities	Increase	0
State Government Entities	Increase	0
Total	Increase	Increase

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 relating the 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 AND OPEB

This section of the actuarial note pertains to changes in the net actuarial present value of expected future benefit payments and administrative expenses incurred by the retirement systems or associated with an OPEB plan.

1. Retirement Systems

The change in net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems from the proposed legislation is expected to increase.

Teacher's Retirement System of Louisiana

Current law includes two broad categories of reemployed retirees under TRSL: the 2010 Return to Work (RTW) Group (those who retired prior to July 1, 2010 or returned to work prior to July 1, 2020) and the 2020 RTW Group (those who returned to work after June 30, 2020 or those who meet the definition of the 2010 RTW Group but made an irrevocable election to be covered under the 2020 RTW Group rules).

- 1) 2010 RTW Group
 - a. Retirees who retired prior to July 1, 2010 or fill a "critical shortage" position, as defined in current statute, are able to return to work without a benefit suspension.
 - b. Retirees who work in specific positions may return to work without a suspension of benefits as long as actual earnings do not exceed 25% of their annual retirement benefit. Retirement benefits will be reduced on a dollar-for-dollar basis in excess of this limit.
 - c. All other retirees are subject to a suspension of benefits and do not accrue a supplemental benefit for the period of reemployment.
- 2) 2020 RTW Group may elect one of the following two options:
 - a. Continue to receive benefits while reemployed. If actual earnings exceed 25% of the final average compensation in any fiscal year, retirement benefits will be reduced on a dollar-for-dollar basis in excess of this limit, or the retiree may elect option 2 if employed in a full-time position.
 - b. If employed in a full-time covered position, the retiree may elect a full suspension of benefits, again become an active member of the retirement system, and earn a supplemental benefit for the subsequent period of service.

The proposed law would temporarily allow a TRSL retiree to return to active employment in a position as a classroom teacher, teacher's aide, or paraprofessional to assist a classroom teacher, without a suspension or reduction of their retirement benefits, through June 30, 2027, regardless of total earnings. This change will have the following retirement impact on participants who are currently employed as a classroom teacher, teacher's aide, or paraprofessional assisting a classroom teacher, all of which are likely to increase the total expected benefit payments from the system.

- 1) Retirees subject to the earning limit under 1.b. or 2.a. above will no longer be subject to benefit reductions when they exceed their respective earnings limit.
- 2) Retirees who currently have their benefits suspended and are accruing an additional benefit will be able to continue working but may elect to receive their retirement benefit rather than continuing to accrue any additional benefit.
- 3) Active employees who are eligible to retire, but may otherwise have continued to work, may retire and immediately return to active employment.

Louisiana School Employees' Retirement System

Current law includes two categories of reemployed retirees under LSERS: bus drivers and all other covered positions.

- 1) Retirees may return to work as a bus driver with a suspension of benefits during the 12 months immediately following their date of retirement and no suspension of benefits thereafter.
- 2) Retirees may return to work in any other covered position without a suspension of benefits as long as actual earnings do not exceed 50% of inflation adjusted average compensation. Retirement benefits will be reduced on a dollar-for-dollar basis in excess of this limit.

The proposed law would temporarily eliminate the 12-month benefit suspension period for bus drivers as well as the earnings limit for all other covered positions through June 30, 2027. This change will increase the total expected benefit payments from the system.

The temporary nature of the changes serves to limit the overall impact.

2. Other Post-employment Benefits (OPEB)

The change in net actuarial present value of expected future benefits and administrative expenses associated with OPEB, including retiree health insurance premiums, from the proposed legislation is expected to decrease slightly. Our analysis is summarized below.

The rules for determining whether someone is eligible for health care coverage as an active employee differ from one school district to another. The elimination of an earnings limit makes it more likely a retiree who has returned to work will be able to work more hours and, therefore, more likely they could qualify for health care coverage as an active employee rather than continue with post-retirement medical insurance. While the total cost of coverage is approximately the same regardless of whether a retiree is reemployed into active status or remains in retired status because the expected claims will not change, the portion attributed to active coverage will increase and the portion attributed to OPEB costs and liabilities will decrease.

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On balance, this bill is expected to have a slight decreasing effect on OPEB costs and liabilities. The increase for the retirement benefits is larger than the decrease in OPEB costs, resulting in an overall net increase.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings only include cash flows to or from the affected retirement system or OPEB plan, (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. Estimated Fiscal Impact – Retirement Systems

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.

Table A: Retirement System Fiscal Cost

Expenditures	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5-Year Total</u>
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	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5-Year Total</u>
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.

1. Expenditures:

- a. TRSL and LSERS expenditures (Agy Self-Generated) will increase because more in retirement benefits will be paid under the bill than under current law.
- b. 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 and LSERS' existing budgets.
- c. Depending on the increased volume of employee contributions refunds required, administrative costs to process the refunds could significantly increase administrative costs (employee time, bank transaction fees, and mail services) for LSERS.
- d. Total employer contributions will increase because higher expected benefit payments result in slightly higher liabilities. Given the temporary nature of these changes, it is expected contribution rates will be relatively the same. 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.

2. Revenues:

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

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B. Estimated Fiscal Impact – OPEB

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.

Table B: OPEB Fiscal Cost

Expenditures	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Revenues	2022-23	2023-24	2024-25	2025-26	2026-27	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.

1. Expenditures:

To the extent retirees qualify for and participate in active employee health coverage, OPEB costs will decrease.

2. Revenues:

No measurable effect.

**III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES
(Prepared by LLA Local Government Services)**

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 Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost impact of the proposed legislation on such local government entities. 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 C: Fiscal Costs for Local Government Entities

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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

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

1. Expenditures:

Assuming advertising requirements are lessened, this bill may decrease local government expenditures, but the timing and amount is indeterminable at this point.

2. Revenues:

No measurable effect.

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

This section of the actuarial note pertains to annual fiscal cost (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact – State Government Entities (other than the impact included in Tables A and B)

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost impact of the proposed legislation on such state government entities. 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 D: Fiscal Costs for State Government Entities

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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 state government entities during the five-year measurement period.

1. Expenditures:

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

2. Revenues:

There is no anticipated direct material effect on governmental 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.

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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. 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.

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 the Teacher's Retirement System of Louisiana and the Louisiana School Employees' Retirement System 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 Tables A, B, C, and D for the first three years following the 2022 regular session.

<u>Senate</u>	<u>House</u>
<input type="checkbox"/> 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	<input type="checkbox"/> 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
<input type="checkbox"/> 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	<input type="checkbox"/> 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