OFFICE OF LEGISLATIVE AUDITOR
2022 REGULAR SESSION
ACTUARIAL NOTE

Senate Bill 425 SLS 22RS-588	**Date: April 9, 2022**
Original	**Organizations Affected: TRSL**
Author: Ward	
LLA Note SB 425.01	**OR INCREASE APV**

Bill Header: TEACHERS RETIREMENT. Provides for reemployment of retirees to address certain critical teacher shortages.

Purpose of Bill: This bill modifies current law related to the payment of benefits to retirees under the Teacher's Retirement System of Louisiana (TRSL) who return to active employment. Specifically, current law that applies only to retirees who returned to work prior to July 1, 2020 (R.S. 11:710) will now apply to anyone who retired prior to July 1, 2020, regardless of when they return to active employment; allows retirees who voluntarily elected to become subject to the return to work provisions outlined in R.S. 11:710.1 to elect to be covered under R.S. 11:710; and changes certain restrictions related to hiring retirees in critical shortage positions.

Cost Summary[1]: 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 system is expected to increase slightly because retirees who might otherwise have received a reduced benefit, or suspended their benefit altogether, will be eligible to receive their full benefit. Any impact on OPEB is expected to be minimal.

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)	0
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)	0	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**

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 slightly.

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 allow more retirees to return to work without suspending their benefits by making the following changes:

1) Eliminates the requirements that a retiree be certified to teach in the critical shortage area and otherwise qualified to return to work without a benefit suspension

2) The requirement to be included in the 2010 vs 2020 RTW Groups would change from returned to work prior to July 1, 2020 to retired prior to July 1, 2020.

3) Members of the 2020 RTW Group who returned to work prior to July 1, 2020, and made the election to be covered by the 2020 RTW rules, can make a new election to be covered by the updated 2010 RTW Group rules.

This bill will expand the pool of retirees who are eligible to return to work without a suspension of benefits. However, only for participants who have already retired, which does not create an incentive for a change in future retirement behavior. Therefore, total expected benefit payments can be expected to increase because retirees who would otherwise have a reduction in benefit will be eligible to receive their full benefit. This increase is expected to be comparatively small.

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 be $0.

While some existing retirees may qualify for health care coverage as an active employee rather than continue with post-retirement medical insurance, any changes are expected to be minimal, and therefore treated as zero.

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	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
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	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	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 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 existing budget.

   c. Total employer contributions will increase because higher expected benefit payments result in slightly higher liabilities, but 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.

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	$ 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 OPEB related fiscal costs and revenues during the five-year measurement period.

1. Expenditures:

   No measurable effect.

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

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:

   This bill may decrease local government expenditures, but the timing and amount is indeterminable at this point. One portion of the bill could possibly have a minimal impact on the school systems. Current requirement for rehiring retirees for critical shortages is that they must advertise twice in the official journal about the critical shortage. The bill would require advertising monthly in the official journal that the employer is soliciting applications for future employment of certified teachers (until July 2025).

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 which is already reflected in Table A 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. <u>ACTUARIAL DISCLOSURES</u>

<u>Intended Use</u>

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.

<u>Actuarial Data, Methods and Assumptions</u>

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.

<u>Conflict of Interest</u>

There is nothing in the proposed legislation that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

<u>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.

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)

[X] This bill contains a retirement system benefit provision having an actuarial cost.

Some members of the Teacher's Retirement System of Louisiana 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.

Senate			House		
[ ]	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**	[ ]	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**