The original instrument was prepared by Alana Madison Perrin. The following digest, which does not constitute a part of the legislative instrument, was prepared by LG Sullivan.

DIGEST

SB 18 Reengrossed | 2023 Regular Session | Price

For any state or statewide retirement system present law provides for permanent post-retirement benefit increases (PBIs), sometimes called cost-of-living adjustments or COLAs, funded directly or indirectly through employer contributions.

The state retirement systems are the La. State Employees' Retirement System (LASERS), the Teachers' Retirement System of La. (TRSL or Teachers), the La. School Employees' Retirement System (LSERS), and the La. State Police Retirement System (State Police or Troopers).

Present law experience account (EA) is a special account within each state retirement system trust for the accumulation of funds to provide eligible recipients with PBIs/COLAs.

When a state system's actuarially determined investment return exceeds the system's target and funds are available, present law requires money that would otherwise go into the trust and be applied to reduce future employer contributions required to cover benefits already earned to instead be credited to the EA. Requires payment of additional employer contributions over the ten years following a credit to the EA to make up for the diversion of the money into the EA, indirectly funding any PBI/COLA paid from the EA.

Proposed law provides for the phasing out and termination of the EA and of the diversion of the investment earnings into the account and creates a new account for accumulation of funds to pay PBIs/COLAs (the PBI/COLA account). Provides for direct payment of additional employer contributions to be credited to the PBI/COLA account.

Present law requires the legislature to set the required employer contribution rates at the state systems by applying a formula. Provides for payment for the current year's benefit accruals, amortization of unfunded accrued liabilities that existed in 1988, actuarial gains and losses, changes in actuarial assumptions or funding methods, changes in asset valuation methods, allocations to the EA, and administrative expenses.

Proposed law provides for an additional component of the required employer contribution rate called the PBI/COLA account funding contribution or AFC rate. Sets the AFC rate for Fiscal Year 2023-2024 at zero.

Proposed law phases in these additional direct employer contributions. In a year when the employer rate is scheduled to drop, half of the decrease will be added to the maximum possible AFC rate until that maximum equals 2.5%.

Proposed law, applicable to LASERS, Teachers, and LSERS, limits the effect the AFC rate can have on certain employer rates. If the sum of the projected aggregate employer contribution rate plus the maximum AFC rate will be above certain thresholds, the AFC rate to be used for that year will be reduced from the maximum and could be zero. Proposed law specifies that this sum cannot exceed the projected aggregate employer contribution rate that will apply for Fiscal Year 2024, beginning July 1, 2023. Additionally specifies that, beginning in Fiscal Year 2040, the sum cannot exceed 22% for LASERS and 16% for Teachers.

If the maximum AFC rate for LASERS or Teachers is greater than 1.5% in the first year (FY 25), proposed law further limits the AFC rate to be applied for the first four years (FYs 25-28) as follows:

Fiscal Year	AFC Rate to be Applied cannot exceed
2024-2025	1.50%
2025-2026	1.75%
2026-2027	2.00%
2027-2028	2.25%

For LASERS and Teachers, proposed law provides an alternate schedule of maximum AFC rates to be used in the first five years if the Original Amortization Base or OAB, which includes the initial unfunded accrued liability (IUAL) that must be paid off by 2029, is liquidated in FY 2022-2023, as follows:

Fiscal Year	Maximum AFC Rate
2024-2025	1.50%
2025-2026	1.75%
2026-2027	2.00%
2027-2028	2.25%
2028-2029 and thereafter	2.50%

The maximum benefit increase permitted under present law is 2% for LASERS and TRSL and 2.5% for LSERS and State Police. With growth in the funding level of a system, present law allows a maximum benefit increase up to 3%. Proposed law provides for a maximum 2% PBI/COLA regardless of funding level.

Present law caps the balance in the EA at the amount needed to fund one PBI/COLA if the system is less than 80% funded and at the amount needed to fund two PBIs/COLAs if the system is 80%

funded or better. Proposed law caps the balance in the PBI/COLA account at two increases.

Present law (R.S. 11:23) provides that "funded percentage" for state systems means the valuation assets used to determine the actuarially required contributions pursuant to present law divided by the accrued liability of the system determined by utilizing the funding method established in present law.

Proposed law retains present law and specifies that the AFC payments required under proposed law are not actuarially required contributions.

To be eligible to receive an EA increase, present law requires that benefits on the member's record must have been paid for at least one year and, if the benefit is not based on a disability, the member's 60th birthday must have passed. Eligibility under proposed law will require that benefits on the member's record must have been paid for at least two years and, if the benefit is not based on a disability, the member's 62nd birthday must have passed.

Present law provides for the increase funded by the EA to be paid on the first $60,000 of a benefit, indexed to reflect any rise in the consumer price index since 2015. Proposed law provides for the increase to be paid on the first $60,000 of a benefit with no indexing.

Present law prohibits a system board of trustees from granting a benefit increase without legislative approval in an Act. Proposed law retains present law.

	Present law Experience Account	Proposed law PBI/COLA Account
maximum increase	2-2.5% currently, up to 3%	2%
payable on	$60,000 indexed since 2015	$60,000 not indexed
eligibility	age 60, 1 year of payments	age 62, 2 years of payments
funding source	indirectly by employer	directly by employer
funding payments begin	after deposit into the account	before deposit into the account
account balance cap	1 increase if <80% funded 2 increases if ≥80% funded	2 increases regardless of funding
increase authority	Legislative Act	Legislative Act

Effective upon signature of the governor or lapse of time for gubernatorial action.

(Amends R.S. 11:102(B)(1), (2)(a), and (3)(e); adds R.S. 11:102(C)(6)(e), (D)(6)(e), (E)(5), and (F)(4), 542(G), 547, 883.1(G), 883.5, 1145.1(F), 1145.6, 1332(G), and 1332.1)

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Retirement to the original bill

1. Clarify that the AFC rate will be reduced if the sum of the AFC rate and the projected aggregate rate is above certain thresholds.

Committee Amendments Proposed by Senate Committee on Finance to the engrossed bill

1. For LASERS and Teachers, provide for a schedule of upper limits for the AFC rates to be applied in the first four years if the maximum AFC rate would otherwise be above 1.5% in the first year.

2. For LASERS and Teachers, provide an alternate schedule of maximum AFC rates to be used in the first five years if the Original Amortization Base or OAB, which includes the initial unfunded accrued liability (IUAL), is liquidated in FY 2022-2023.