

House Bill 18; HLS 051ES-315
 Reengrossed Amended in First Committee
 Author: Representative Hutter
 Thursday, November 17, 2005
 LA # 2.05



Thomas N. Rice, EA, MAAA, ASA
 Legislative Actuary

**STATE & STATE-WIDE RETIREMENT SYSTEMS
 RE1 INCREASE**

Bill Provisions

RETIREMENT BENEFITS: Provides for public employees on involuntary furlough or leave without pay due to a disaster to continue to earn service credit in their retirement systems by making employee and employer contributions(Item #65)

Estimated Fiscal Impact

EXPENDITURES	2005-06	2006-07	2007-08	2008-09	2009-010	5 YEAR TOTAL
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	Increase	Increase	Increase	Increase	Increase	Increase
Federal Funds	Increase	Increase	Increase	Increase	Increase	Increase
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
ANNUAL TOTAL	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2005-06	2006-07	2007-08	2008-09	2009-010	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:

- (a) Adds involuntary furlough and leave without pay when due to a gubernatorial declared disaster or emergency to the purchase of service and salary credit entitlement of R.S. 11:163. Currently this is allowed only for a temporary closure of the employer. This section applies to members of all state and statewide public retirement systems.
- (b) In addition, furloughed members that qualify under the new provisions on or after August 29, 2005 will be allowed to purchase service and salary credit for the period August 29, 2005 through June 30, 2006, and **pay only the active member contributions (employer and employee). Current law allows members who are involuntarily furloughed without pay due to a temporary office closure to purchase this service, but also requires a minimum payment equal to the actuarial accrued liability cost if it is greater. This is normally required by R. S. 11:158 for service purchases.**
- (c) The purchased service and salary credit may not be used for meeting the minimum service requirements for disability retirement.
- (d) Any delinquent contributions for such credit prior to the effective date of these new provisions will be deemed timely if received by the due date of December 2005 contributions. All purchase payments must be remitted to the system by December 31, 2006.

Actuarial Cost Impact

Generally, members who are entitled to purchase service credits must pay the greater of:

- (1) contributions that would have been paid by the employer and employee, plus interest or
- (2) the actuarial value of the increase in accrued liability to the system.

Waiving the actuarial cost minimum under R.S. 11:158 can result in substantial underpayment of value for service credits, which must then be subsidized with additional contribution from the employers, or for state plans, from the general fund. It can be assumed that members who would voluntarily choose to continue payment of the total contribution are doing so to achieve a greater value then the cost. Based on our analysis to this point, it appears that possible cost impacts resulting from omission of the true actuarial cost to pay for this service could be in the order of an additional 0.05% of payroll annually if spread over a thirty year period.

The actuarial cost impact does not necessarily reflect what the ultimate net impact to the UAL or the contribution will be. It indicates the differential between the true actuarial cost and the contribution payments for the elected purchase under the proposed bill. Because the system is actuarially funded, the impact to the UAL would be based on the expected funding circumstances of the individuals involved. Due to the impacts of Hurricanes Katrina and Rita and the short time provided during this special session, it is not possible to provide an accurate dollar estimate or specific information as to expected usage and costs at this time.

Actuarial Analysis

Employer contributions are developed based on certain assumptions reflecting the experience patterns and established behaviors of the membership, within the plan's benefit design. When a member leaves active employment, whether voluntarily or involuntarily, under normal circumstances the average contribution rate paid by the entire group generally remains in balance to maintain the actuarial basis to meet benefit liabilities. When a substantial number of members unexpectedly leave active employment, the adequacy of the contribution rate is highly dependent on the payroll and average characteristics of the remaining membership. Fixed dollar amortization payments of the unfunded liabilities would be understated with the existing contribution rate based on a reduced projected payroll. However, the experience assumptions underlying the contribution rate could continue to be applicable for the normal cost portion of the remaining members if the diversified group characteristics remains in tact. Currently R.S. 11:163 requires payment of the actuarial cost as a minimum to safeguard that the trust will not be impacted by the additional liability.

Generally, purchases of this type result in adverse selection against the system, and the contribution rates. Impacted members will elect to pay the contributions if they are less than the true value (actuarial value) of the additional benefits gained by the payment. Otherwise they would not elect the purchase. The additional value can come in the form of added service credit, final pay enhancement, future rehired retiree privileges, death and other ancillary benefits, vesting, or earlier retirement eligibility. Contributions are based on the collective actuarial costs of all members and expressed as an average percentage of the members payroll. When a significant portion of the active membership is furloughed, the entire affected segment would have to elect to pay the contributions to meet the average actuarial costs assumed in the rates.

The following exhibit shows the possible actuarial cost of the proposed amendment as a level dollar amount amortized over a 30 year period. The annual amount is equivalent to 0.05% of payroll.

Retirement System:	Estimated Projected Payroll (pre-Katrina basis)	0.05% of Annual Payroll	Percent of payroll equivalent to the potential Actuarial Cost for the proposed bill as an annual amount payable over thirty years.
State Employees'	2,163,000,000	1,081,500	
Teachers'	3,230,000,000	1,615,000	
State Police	50,000,000	25,000	
School Employees'	262,000,000	131,000	
State Total	\$5,705,000,000	\$2,852,500	
Statewide Total	\$1,580,000,000	\$790,000	
Combined Total	\$7,285,000,000	\$3,642,500	