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## DIGEST

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Pearson

HB No. 68

**Abstract:** Provides relative to membership, benefits, and governance of the Cash Balance Plan (CBP) in the Louisiana State Employees' Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), and the Louisiana School Employees' Retirement System

### MEMBERSHIP

Present law establishes a cash balance retirement plan (CBP) in LASERS, TRSL, and LSERS and requires membership in such plan for the following members whose first employment making them eligible for state system membership begins on or after July 1, 2013:

- (1) All non-hazardous duty members of LASERS.
- (2) Members of TRSL employed at an institution of higher education or a management board of an institution of higher education, who are not employees of lab schools or the Louisiana School for Math, Science, and the Arts.

Proposed law retains present law and further provides that all members required by present law to be in the CBP shall remain members of the CBP except as provided in proposed law.

Present law further provides any member whose first employment making them eligible for state system membership begins on or after July 1, 2013 who is not required to be in the CBP pursuant to present law may make an irrevocable election to join the CBP within 60 days of employment. Proposed law retains present law and further provides that the member shall remain a member of the selected plan except as provided in proposed law.

Present law provides that members of the Hazardous Duty Service Plan in LASERS may not elect to join the CBP. Proposed law provides that members of the Hazardous Duty Services Plan in LASERS may not elect to join the CBP while employed in a position covered by the CBP.

Proposed law provides for "dual membership" for certain CBP members in the following circumstances:

- (1) A CBP member who becomes employed in a position covered by the Hazardous Duty

Services Plan.

- (2) A Hazardous Duty Services Plan member who becomes employed in a position covered by the CBP
- (3) A member of a state system that does not have a CBP, first hired on or after 1/1/14, who becomes employed in a position covered by the CBP.
- (4) A CBP member who becomes employed in a position covered by a CBP in another state retirement system.

For such members, proposed law provides that upon employment in the new position, the member's years of creditable service and account balance or average compensation, as applicable, shall be frozen. The member shall be treated as a brand new member of the new plan and his accruals shall begin from zero. Further provides that such member shall be eligible to utilize a reciprocal recognition of creditable service agreement pursuant to present law to access accrued benefits in both plans. Such member shall also be governed by the "dual membership" provisions of proposed law, outlined below.

Present law provides for members transferring from a CBP in one system to a CBP in another system. Authorizes such member to withdraw from the first CBP, pursuant to present law, and transfer the amount he would otherwise be entitled to under present law to the new CBP. Proposed law retains present law and further provides that if the member executes such a transfer, all years of the member's period of active service covered by the CBP from which he is transferring shall be transferred to the new system. Further provides that all responsibility for tracking Tier 1 benefit eligibility and responsibility for paying such benefits shall also be transferred to the receiving system. Proposed law requires such Tier 1 benefits to be calculated as though the member had executed a transfer between regular defined benefit plans pursuant to present law.

Present law further allows a CBP member who leaves the CBP in one system for another Louisiana public retirement system, plan, or fund, including a CBP in another system, the option of leaving his first CBP account balance with the first system and utilizing a reciprocal recognition of credited service agreement pursuant to present law to access his accrued benefits in both plans. Proposed law retains present law and further provides that for the application of reciprocal agreements, service credit shall be determined as if the member's cash balance service had been earned as a member of the applicable Tier 1 plan.

Proposed law further explicitly provides relative to CBP members who become employed in a position covered by a system that does not have a CBP. Under proposed law such member shall have the following options:

- (1) Maintain his membership in the CBP and be entitled to all rights and options he is eligible for under present law as a member of such system, including withdrawal of any amount he is otherwise entitled to pursuant to present law.

- (2) To execute a reciprocal recognition of service agreement pursuant to present law.

Present law (R.S. 11:142) provides for reciprocal recognition of creditable service agreements between Louisiana public retirement systems, plans, or funds. Proposed law retains present law and further provides for reciprocal recognition of creditable service agreements between plans within a system. Proposed law further requires the board of trustees of the LASERS to promulgate rules and regulations regarding the implementation, recognition, and application of reciprocal recognition of service agreements between plans in their system.

Proposed law prohibits a CBP member from transferring into the CBP any benefits or years of creditable service from a defined benefit plan in any Louisiana public retirement system, plan, or fund.

Proposed law further prohibits a CBP member from purchasing service credit in a CBP.

Present law prohibits a CBP member from participating in the Deferred Retirement Option Program (DROP) or any similar program. Proposed law retains present law.

#### DUAL MEMBERSHIP

Proposed law requires certain members to have membership in both a regular defined benefit plan and a CBP. Proposed law therefore provides for the dual membership of such members. Provides that membership in both plans are independent from each other and that an option exercised in one plan shall not affect the membership in another plan. Provides rules as follows:

- (1) If a dual member refunds his contributions from the regular defined benefit plan prior to withdrawal or retirement from the CBP, he is still a CBP member and shall retain all rights otherwise acquired as such.
- (2) If a dual member withdraws from the CBP prior to retirement from the CBP or the regular defined benefit plan, such member shall still be a member of the regular defined benefit plan and shall retain all rights otherwise acquired as such.
- (3) If a dual member retires under the regular defined benefit plan without executing a reciprocal recognition of creditable service agreement, and such member has less than 5 years of active participation in the CBP, such member may either withdraw from the CBP pursuant to present law or maintain his membership in the CBP by leaving his account balance with the system pending a future return to active service in such plan.
- (4) If a dual member retires or withdraws from the CBP without executing a reciprocal recognition of creditable service agreement, and such member does not have sufficient years of service credit in the regular defined benefit plan to become eligible for retirement in such plan without working longer, such member may exercise any option available to him under present law as a non-vested member of such plan.

- (5) Notwithstanding any provision of present and proposed law to the contrary, a dual member shall be considered an active contributing member of both plans for the purposes of determining disability and survivor benefits. Further provides that any regular defined benefit plan disability or survivor benefits for which the dual member is eligible shall be calculated based on his service in the regular defined benefit plan.
- (6) If a member retires for a regular defined benefit plan, he shall be subject to all the present law governing provisions of such plan with respect to his benefit from such plan. Further provides that this includes return to work provisions for members of TRSL.

Proposed law provides that nothing in proposed law shall be construed to authorize an in-service distribution.

## BENEFITS

Under present law, the CBP has the following general benefit design, which is further detailed below:

- (1) Employee contributions of 8% of pay.
- (2) Additional pay credits of 4% of pay, plus interest, for the duration of state service.
- (3) Account balance is not debited for investment losses.
- (4) Eligibility to have account balance paid as a life time annuity beginning at age 60.

Proposed law retains present law.

Present law provides the following with respect to withdrawal of members of the CBP:

- (1) Eligibility to withdraw employee contributions at any time after separation from service with less than five years of participation.
- (2) Eligibility to withdraw the full account balance (all pay credits and interest) at any time after separation from service with five or more years of participation.

Proposed law retains present law but change the period from "5 years of membership" to "5 years of active service".

Present law provides that if a member with less than 5 years withdraws from the system, the system shall retain all interest and any employer contributions. Proposed law changes this to say that all interest and any employer contributions shall be forfeited to the system.

Present law creates individual CBP nominal accounts within the retirement system trust containing annual pay credits of 12%, which includes the employee's 8% contribution. Provides

for an interest credit annually to each member's account equal to one percentage point less the system's achieved actuarial rate of return. Proposed law retains present law.

Present law provides that CBP members with 5 or more years of membership may opt to leave his account balance with the system and draw an annuity pursuant to present law when the member attains age 60. However, no further credits or interest will be added to his account. Proposed law retains present law but changes the time for eligibility of such benefit from "5 or more years of membership" to "5 or more years of active participation".

Present law provides for reciprocal recognition of service under present law. Proposed law provides that for the purposes of application of a reciprocal recognition of service agreement to a cash balance plan account, the member's service credit shall be determined as if the member's cash balance service had been earned as a member of the applicable Tier 1 plan.

Present law authorizes a CBP member to elect an initial benefit option, an initial lump sum benefit option, or any similar retirement option designed to provide a reduced annuity in exchange for a lump-sum payment. Proposed law retains present law. Present law provides for such election to be made upon separation from service. Proposed law provides for such election to be made upon retirement instead.

Present law, provides that if a CBP member withdraws from the plan or annuitizes his benefit and then becomes reemployed in a position covered by the CBP, accumulation in the CBP shall resume. Such reemployment shall not, however, affect his receipt of the lump sum or annuity from his first cash balance account.

#### *Survivor benefits*

Present law provides for survivor benefits for members of the CBP. Provides that if the decedent leaves no surviving children, the surviving spouse may receive either:

- (1) The benefit he would have been entitled to had the deceased been in the Tier 1 plan.
- (2) The lump sum of the deceased's CBP account balance.

Provides that if the decedent leaves surviving children, allows the spouse and surviving children to receive the present law survivor benefit available to members of the Tier 1 plan. If the deceased member did not meet the present law survivor benefit eligibility requirements, the designated beneficiary or the deceased's estate may elect to receive the CBP account balance.

Proposed law retains present law.

Present law provides that, subject to applicable federal law, if a survivor is eligible to and elects to receive a Tier 1 survivor benefit, the CBP account balance shall be retained by the system. Proposed law retains applicable federal law restrictions and further provides that if a survivor is eligible to and receives a Tier 1 survivor benefit, the beneficiary forfeits the CBP account balance

to the system.

Proposed law further provides that survivor benefits received pursuant to present CBP law shall be governed by the applicable Tier 1 plan provisions.

#### *Disability benefits*

Present law provides for disability benefits for members of the CBP. Allows the member to elect to receive either:

- (1) The lump-sum of his CBP account balance.
- (2) The present law disability benefit available to members of the Tier 1 plan, if the CBP member otherwise meets the eligibility requirements for such benefit.

Proposed law breaks the disability benefits in the CBP down into two portions:

- (1) For members who are certified as disabled pursuant to the applicable Tier 1 provisions before becoming eligible for retirement in the CBP, the member shall receive the applicable Tier 1 disability benefit if the member otherwise meets the eligibility requirements for disability in such Tier 1 plan.
- (2) For members who are certified as disabled after attaining retirement eligibility in the CBP plan, or who while otherwise receiving disability benefits under proposed law attain the normal retirement age required in the applicable Tier 1 plan, the member shall have the following options:
  - (a) To retire under the provisions of the CBP.
  - (b) To elect to receive, or elect to continue to receive, the applicable Tier 1 disability benefit.

Proposed law further provides that if the retirement eligible member elects to receive the Tier 1 disability benefit, the member's CBP account balance shall be forfeited to the system. Further provides that if such member subsequently returns to active service, his service credit shall be restored, but his account balance shall not.

Present law provides that, except as provided in Federal law, if a cash balance plan member is eligible to and elects to receive a Tier 1 disability benefit, the account balance in the CBP shall be retained by the system. Proposed law retains applicable Federal law and provides that if a member is eligible to and receives a Tier 1 disability benefit, the account balance in the CBP shall be permanently retained by the system, except as provided in proposed law:

- (1) If the member's disability benefit ceases pursuant to applicable law and the member does not return to active service covered by the same system's CBP, he shall be entitled one of

the following options:

- (a) To receive his account balance which had been retained by the retirement system, less the amount of disability benefits received by the member.
  - (b) To take an annuity based on his account balance at the time he is no longer eligible for disability. Such annuity shall be payable upon application of the member, regardless of the age of the member at the time. Further provides that such annuity shall be paid as otherwise provided in present law for retirement annuities.
- (2) If the member's disability benefit ceases pursuant to applicable law because the member returns to active service, his account balance retained by the system shall be restored. The member's accumulation in the account shall resume and the time period in which he received a disability benefit shall not be counted towards his active service in the plan.

Proposed law provides that the Tier 1 disability benefits received pursuant to present and proposed law shall be governed by the applicable Tier 1 plan.

#### REEMPLOYMENT & REFUND

Present law provides for reemployment of persons who either retired or withdrew from a CBP. Provides that upon reemployment in a position covered by the CBP, such person's accumulation in the cash balance plan shall begin again pursuant to present law. Proposed law retains present law and further provides that the member's accumulation in the CBP shall begin again with a new account. Such member shall be considered a "new" member for all purposes and shall not be allowed to reestablish service credit in the system by refunding his withdrawn contributions or lump-sum amount.

Proposed law provides that the reemployment of such member shall not affect the receipt of the lump sum or annuitized payments from the first cash balance account. Proposed law retains present law and further provides that the receipt of a lump sum amount from the first CBP shall be subject to applicable federal law.

#### GUARANTEED RETURN OF EMPLOYEE CONTRIBUTIONS

Present law provides that in no case shall the system pay total benefits of an amount less than the employee's accumulated contributions, as provided in present law. Proposed law retains present law.

Present law provides that Tier 1 provisions shall apply to the CBP for any matter on which the CBP provisions are silent. In case of conflict between Tier 1 provisions and the CBP provisions, the CBP provisions control. Proposed law retains present law.

(Amends R.S. 11:1399.1 through 1399.7; Adds R.S. 11:1399.8)