


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 43**

<p>House Bill 43 HLS 13RS-386 Original</p> <p>Author: Representative Major Thibaut</p> <p>Date: April 8, 2013</p> <p>LLA Note HB 43.01</p> <p>Organizations Affected: Louisiana School Employees' Retirement System</p> <p>OR NO IMPACT APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 43 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/SCHOOL EMPS: Provides relative to the payment of unfunded accrued liability associated with privatized jobs in local public school systems

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$0
Total Five Year Fiscal Cost	
Expenditures	See Below
Revenues	See Below

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

Actuarial Cost/(Savings) to:	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	\$0
Other Post Retirement Benefits	\$0
Total	\$0

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-2018	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	Decrease	See Below	See Below	See Below	See Below	See Below
Annual Total	Decrease	See Below	See Below	See Below	See Below	See Below

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-2018	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Decrease	See Below	See Below	See Below	See Below	See Below
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	Decrease	See Below	See Below	See Below	See Below	See Below

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Bill Information:

Current Law

Under current law, if an employer participating in the Louisiana School Employees' Retirement System (LSERS) terminates a group of employees or eliminates one or more positions by privatizing, outsourcing, or contracting with a private employer, then the employer is required to pay its portion of the unfunded accrued liability (UAL), relative to the terminated employees, that existed on the June 30 immediately prior to the date of such privatization.

The amount calculated as the employer's share of the UAL shall be paid by the employer as a lump sum or as equal payments over a ten year period with payments calculated based on the interest rate used by the actuary in the most recent actuarial valuation.

Proposed Law

HB 43 provides that the provisions of this section of current law shall not apply to any city, parish, or other local public school board.

Implications of the Proposed Changes

HB 43 essentially repeals the requirements of current law. If HB 43 is enacted, all employers participating in LSERS will be exempt from the requirements of current law.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Under current law, an employer must pay its proportionate share of the UAL, if any, when it takes an action to terminate its participation in LSERS for some or all of its employees. Under HB 43, an employer that takes such an action will shift its responsibility for UAL payments to all remaining employers and avoid paying for liabilities associated with its own workforce.

HB 43 has no effect on the actuarial present value of future benefit payments (APV) for LSERS. The APV will remain the same regardless of whether or not HB 43 is enacted.

HB 43 has no effect on the accrued liability of LSERS. The accrued liability will remain the same regardless of whether or not HB 43 is enacted.

HB 43 will have an effect on the unfunded accrued liability of LSERS. Under current law, the UAL associated with privatized employees must be paid by the employer at the time privatization occurs. Or if not paid immediately, the participating employer may pay off its debt to LSERS over a ten year period. In either event, the UAL is reduced under current law when privatization occurs. Under HB 43, the retirement system does not receive an immediate payment toward the UAL upon privatization.

Contribution requirements for employers who have not privatized any portion of their workforces will be larger if HB 43 is enacted than what the requirements would have been without regard to HB 43. A precise estimate of the increase in required contributions for non-privatizing employers cannot be made until an employer participating in LSERS privatizes.

Other Post Retirement Benefits

There are no costs associated with HB 43 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Enactment of HB 43 will have the following effect on fiscal costs over the next five year period.

Expenditures:

- If an employer elects to withdraw from LSERS, full payment of that employer's proportionate share of the UAL will not be required under HB 43. As a result, the amount that the privatizing employer will pay to LSERS will decrease. However, the UAL will increase as a percentage of pay for all remaining active members of LSERS and contribution requirements for all other employers participating in LSERS will increase. Net expenditures from Local Funds will increase unless MFP payments to such school districts are adjusted in future years to compensate.

Revenues:

- LSERS revenues (Agy/Self Generated) will decrease for years in which an employer privatizes a portion of its workforce. The retirement system will not receive the privatizing employer's proportionate share of the UAL as a lump sum payment. LSERS revenues will increase to the extent that contribution requirements for all other employers increase due to the non- payment of the departing employer's share of the UAL.

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The timing of an employer's departure from participation in LSERS cannot be predicted. But if such a departure occurs, there will be a net increase in fiscal costs and that increase is likely to exceed \$100,000.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

13.5.1 \geq \$100,000 Annual Fiscal Cost

13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

6.8(F) \geq \$500,000 Annual Fiscal Cost

6.8(G) \geq \$500,000 Annual Tax or Fee Change