Regular Session, 2013

SENATE BILL NO. 4

BY SENATOR GUILLORY

Prefiled pursuant to Article III, Section 2(A)(4)(b)(i) of the Constitution of Louisiana.

RETIREMENT SYSTEMS. Provides for use of entry age normal valuation method by Louisiana State Employees' Retirement System and Teachers' Retirement System of Louisiana. (See Act)

AN ACT

To amend and reenact R.S. 11:22(B)(6) and (13), 102.1(B)(4) and (C)(4), 102.2(B)(4) and (C)(4), 542(A)(2)(a) and (F), and 883.1(A)(2)(a) and (G), relative to actuarial valuation methods; to provide relative to the method utilized by the Louisiana State Employees' Retirement System and the Teachers' Retirement System of Louisiana; to change such method from projected unit credit to entry age normal; to provide for an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:22(B)(6) and (13) are hereby amended and reenacted to read as follows:

§22. Methods of actuarial valuation established

* * *

B. The following funding methods shall be utilized to determine actuarially required contributions:

* * *

(6) Louisiana State Employees' Retirement System: ~~projected unit credit~~

entry age normal.

* * *

(13) Teachers' Retirement System of Louisiana: ~~projected unit credit~~ **entry age normal**.

* * *

Section 2. R.S. 11:102.1(B)(4) and (C)(4), 102.2(B)(4) and (C)(4), 542(A)(2)(a) and (F), and 883.1(A)(2)(a) and (G) are hereby amended and reenacted to read as follows:

§102.1. Consolidation of amortization payment schedules; Louisiana State Employees' Retirement System

* * *

B. Original amortization base.

* * *

(4) In any year in which the system ~~exceeds its actuarially-assumed~~ **earns a** rate of return **in excess of eight and one-quarter percent on the actuarial value of assets**, the first fifty million dollars of excess returns shall be applied to the remaining balance of the original amortization base established in this Subsection. After such application, the net remaining liability shall be reamortized over the remaining amortization period with annual payments calculated as provided in this Subsection or as otherwise provided by law.

* * *

C. Experience account amortization base.

* * *

(4) In any year in which ~~the excess returns of~~ the system **earns a rate of return in excess of eight and one-quarter percent on the actuarial value of assets, and such excess returns** exceed the amount in Paragraph (B)(4) of this Section, the next fifty million dollars of excess returns shall be applied to the experience account amortization base established in this Subsection. After such application, the net remaining liability shall be reamortized over the remaining amortization period with annual payments calculated as provided in this Subsection or as otherwise provided by law.

* * *

§102.2. Consolidation of amortization payment schedules; Teachers' Retirement System of Louisiana

* * *

B. Original amortization base.

* * *

(4) In any year in which the system ~~exceeds its actuarially-assumed~~ **earns a** rate of return **in excess of eight and one-quarter percent on the actuarial value of assets**, the first one hundred million dollars of excess returns shall be applied to the remaining balance of the original amortization base established in this Subsection. After such application, the net remaining liability shall be reamortized over the remaining amortization period with annual payments as provided in this Subsection or as otherwise provided by law.

C. Experience account amortization base.

* * *

(4) In any year in which the ~~excess returns~~ **system earns a rate of return in excess of eight and one-quarter percent on the actuarial value of assets, and such excess returns** exceed the amount in Paragraph (B)(4) of this Section, the next one hundred million dollars of excess returns shall be applied to the experience account amortization base established in this Subsection. After such application, the net remaining liability shall be reamortized over the remaining amortization period with annual payments calculated as provided in this Subsection or as otherwise provided by law.

* * *

§542. Experience account

A.

* * *

(2) The experience account shall be credited as follows:

(a) To the extent permitted by Paragraph (3) of this Subsection and after allocation to the consolidated amortization bases as provided in R.S. 11:102.1, an amount not to exceed fifty percent of the remaining balance of the prior year's net investment experience gain attributable to Tier 1 assets ~~as determined by the system's actuary~~ **with the gain measured**

as investment earnings in excess of eight and one-quarter percent of the actuarial value of assets.

* * *

F. (1)The permanent benefit increase which is authorized by Subsection C of this Section shall be limited to the lesser of either two percent or an amount as determined in Paragraph (C)(2) of this Section in or for any year in which the system does not earn an actuarial rate of return of at least eight and one-quarter percent interest on the investment of the system's assets.

(2) No permanent benefit increase shall be authorized based on any actuarial valuation in which both of the following apply:

(a) The system fails to earn an actuarial rate of return which exceeds ~~the board-approved actuarial valuation rate~~ **eight and one-quarter percent**.

(b) The system is less than eighty percent funded.

* * *

§883.1. Experience account

A.

* * *

(2) The experience account shall be credited as follows:

(a) To the extent permitted by Paragraph (3) of this Subsection and after allocation to the consolidated amortization bases as provided in R.S. 11:102.2, an amount not to exceed fifty percent of the remaining balance of the prior year's net investment experience gain attributable to Tier 1 assets ~~as determined by the system's actuary~~ **with the gain measured as investment earnings in excess of eight and one-quarter percent of the actuarial value of assets**.

* * *

G. (1)The permanent benefit increase which is authorized by Subsection C of this Section shall be limited to the lesser of either two percent or an amount as determined in Paragraph (C)(2) of this Section in or for any year in which the system does not earn an actuarial rate of return of at least eight and one-quarter percent interest on the investment of the system's assets.

(2) No permanent benefit increase shall be authorized based on any actuarial valuation in which both of the following apply:

(a) The system fails to earn an actuarial rate of return which exceeds ~~the board-approved actuarial valuation rate~~ **eight and one-quarter percent**.

(b) The system is less than eighty percent funded.

Section 3. A. The provisions of Section 1 of this Act applicable to the Louisiana State Employees' Retirement System shall become effective on the day the Public Retirement Systems' Actuarial Committee adopts a valuation or a revised valuation for that system which has been prepared in compliance with all of the following:

(1) Utilizing an actuarially-assumed rate of return of seven and one-half percent.

(2) Decreasing the assumed salary schedule increases by fifty basis points.

(3) Providing an actuarial value of assets as follows:

(a) The preliminary actuarial value of assets shall be the market value of assets on the valuation date plus the sum of the following amounts:

(i) Eighty percent of the investment gain/(loss) for the year ending on the valuation date.

(ii) Sixty percent of the investment gain/(loss) for the year ending one year before the valuation date.

(iii) Forty percent of the investment gain/(loss) for the year ending two years before the valuation date.

(iv) Twenty percent of the investment gain/(loss) for the year ending three years before the valuation date.

(b) The actuarial value of assets shall be equal to the preliminary actuarial value; however, if the preliminary actuarial value is less than eighty-five percent of the market value, the actuarial value of assets shall be equal to the average of the preliminary actuarial value and eighty-five percent of the market value of assets. In addition, if the preliminary actuarial value is greater than one hundred fifteen percent of the market value, the actuarial value of assets shall be equal to the average of the preliminary actuarial value and one hundred fifteen percent of the market value.

(4) Utilizing all other actuarial assumptions as they existed in the system valuation approved by the Committee on March 7, 2013.

B. The provisions of Section 1 of this Act applicable to the Teachers' Retirement System of Louisiana shall become effective on the day the Public Retirement Systems' Actuarial Committee adopts a valuation or a revised valuation for that system which has been prepared in compliance with all of the following:

(1) Utilizing an actuarially-assumed rate of return of seven and one-half percent.

(2) Decreasing the assumed salary schedule increases by fifty basis points.

(3) Providing an actuarial value of assets as follows:

(a) The preliminary actuarial value of assets shall be the market value of assets on the valuation date plus the sum of the following amounts:

(i) Eighty percent of the investment gain/(loss) for the year ending on the valuation date.

(ii) Sixty percent of the investment gain/(loss) for the year ending one year before the valuation date.

(iii) Forty percent of the investment gain/(loss) for the year ending two years before the valuation date.

(iv) Twenty percent of the investment gain/(loss) for the year ending three years before the valuation date.

(b) The actuarial value of assets shall be equal to the preliminary actuarial value; however, if the preliminary actuarial value is less than eighty-five percent of the market value, the actuarial value of assets shall be equal to the average of the preliminary actuarial value and eighty-five percent of the market value of assets. In addition, if the preliminary actuarial value is greater than one hundred fifteen percent of the market value, the actuarial value of assets shall be equal to the average of the preliminary actuarial value and one hundred fifteen percent of the market value.

(4) Utilizing all other actuarial assumptions as they existed in the system valuation approved by the Committee on March 7, 2013.

C. Applications for calculations related to repayments of refunds, transfers of service credit, or purchases of service credit received by a system on or before June 30, 2013, shall be prepared without regard to the provisions of this Act.

D. The Public Retirement Systems' Actuarial Committee shall meet on or before June 28, 2013, to consider adopting a revised valuation containing employer contribution rates for the fiscal year beginning July 1, 2013, prepared in conformity with this Section.

Section 4. The provisions of Sections 2 and 3 and of this Section of this Act shall become effective on June 1, 2013; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on June 1, 2013, or on the day following such approval by the legislature, whichever is later.

The original instrument was prepared by Margaret M. Corley. The following digest, which constitutes no part of the legislative instrument, was prepared by Laura Gail Sullivan.

DIGEST

Present constitution (Art. X, Sect. 29(E)(1)) provides that the legislature shall establish, by law, the particular method of actuarial valuation to be employed by each state or statewide retirement system for purposes of attaining and maintaining the actuarial soundness of such system.

Present law (R.S. 11:4(A)(1)(a) and (b)) provides that the La. State Employees' Retirement system (LASERS) and the Teachers' Retirement System of La. (TRSL) are state retirement systems.

Proposed law retains present law.

Present law (R.S. 11:22(B)(6) and (13)) provides that LASERS' and TRSL's valuation method shall be projected unit credit.

Proposed law changes the valuation method of each system to entry age normal, effective with the adoption by the Public Retirement Systems' Actuarial Committee of a valuation for that system utilizing that method and including changes to the actuarially-assumed rate of return, the salary assumptions, and the method of valuing assets before the entry age normal method statute becomes effective.

Present law provides for payment of the unfunded accrued liability of the systems, including payments on the original amortization base and the experience account amortization base and for allocations to the system experience account when system investment earnings exceed a certain threshold.

Proposed law specifies that allocations to the original amortization base, the experience account amortization base, and the experience account are made only from earnings in excess of 8.25%.

Effective June 1, 2013.

(Amends R.S. 11:22(B)(6) and (13), 102.1(B)(4) and (C)(4), 102.2(B)(4) and (C)(4), 542(A)(2)(a) and (F), and 883.1(A)(2)(a) and (G))

Summary of Amendments Adopted by Senate

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

1. Specifies that credits to the original amortization base, the experience account amortization base, and the experience account are made only from earnings in excess of 8.25%.

2. Requires each system to prepare and the Public Retirement Systems' Actuarial Committee to adopt a valuation utilizing the new valuation method and including changes to the actuarially-assumed rate of return, the salary assumptions, and the method of valuing assets before the entry age normal method statute becomes effective.

3. Provides an effective date of June 1, 2013, for the requirement that the Committee adopt a new valuation and the 8.25% threshold for application of excess returns to the three funds.