


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 68**

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| <p>House Bill 68 HLS 13RS-227 Original</p> <p>Author: Representative J. Kevin Pearson Date: May 1, 2013</p> <p>LLA Note HB 68.01</p> <p>Organizations Affected: State Retirement Systems except State Police 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 68 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/STATE SYSTEMS: Relative to the retirement of persons employed in state government positions on or after July 1, 2013.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation 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.

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

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 | 0 | 0 | 0 | 0 | 0 | 0 |
| Annual Total | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

| 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 | 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 |

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Bill Information

THIS ACTUARIAL NOTE COMPARES HB 68 WITH CURRENT LAW WHICH INCLUDES ACT 483 OF THE 2012 REGULAR SESSION OF THE LEGISLATURE.

Current Law – Proposed Law

HB 68 makes the following technical changes to the cash balance plan (CBP) to clarify provisions of Act 483 of the 2012 regular session of the legislature.

1. Rules Pertaining to Members who Change Employment within Louisiana Government.
 - a. A state employee is first employed in a position on or after July 1, 2013, and such employment makes him eligible for membership in a state system that does not have a CBP. He later becomes employed in a position that would otherwise be covered by a CBP. The member shall have the option of joining the CBP. The following rules will apply if the member elects to join the CBP.
 - 1) The member's years of service and final average compensation under his prior system or plan will be frozen.
 - 2) The member may not transfer his prior system or plan service credits and final average compensation to the CBP.
 - 3) The member's account balance and service credits in the CBP will start from zero.
 - 4) The member will have dual membership in the CBP and the prior system or plan.
 - 5) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the prior system or plan but not for benefit calculation purposes.
 - b. Rules Pertaining to Hazardous Duty Service Plan (HDSP) membership and CBP membership
 - 1) No member of HDSP may elect to join the LASERS CBP while employed in a position covered by the HDSP.
 - 2) If a member of any CBP becomes employed in a position covered by the Hazardous Duty Service Plan (HDSP), then:
 - a) The member must become a member of the HDSP and cease being a member of the CBP.
 - b) The member's account balance in the CBP is frozen. He will receive no additional pay or interest credits.
 - c) The member may not transfer his CBP account balance or his service credits to the HDSP.
 - d) The member will have dual membership in the CBP and the HDSP.
 - e) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the HDSP but not for benefit calculation purposes.
 - 3) If a member of the HDSP first employed on or after July 1, 2013, becomes employed in a position covered by any CBP, then:
 - a) The member must become a member of the CBP and cease being a member of the HDSP.
 - b) The member's years of credited service and final average compensation in the HDSP shall be frozen.
 - c) The member may not transfer his HDSP service credits and final average compensation to the CBP.
 - d) The member's account balance and service credits in the CBP will start from zero.
 - e) The member will have dual membership in the CBP and the HDSP.
 - f) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the HDSP but not for benefit calculation purposes.
 - c. A member of a CBP of one system becomes employed in a position covered by the CBP of another system. Such a person will have the following options.
 - 1) The member may withdraw his account balance from the CBP of the first system and transfer it to the CBP of the second system.
 - a) All years of the member's service with the first system shall be transferred to the second system.
 - b) The second system will be responsible for any disability or survivor benefits to which the member may become entitled.

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- 2) The member may leave his account balance in the CBP of the first system and his account balance in the CBP of the second system will start at zero. He will receive recognition for service credits under both systems to obtain eligibility for disability or survivor benefits.
 - d. TRSL ORP Membership Rules
 - 1) Any member of a CBP employed in a position covered by ORP may elect to participate in ORP.
 - 2) The member may withdraw his employee contributions without interest from the CBP if he has less than 5 years of service or his account balance in the CBP if he has five or more years of service. These funds must be transferred to the ORP account balance.
 - e. If a member of a CBP becomes employed in a position covered under a system that does not have a CBP, then:
 - 1) The member may elect to remain a member of the CBP of the first system, or
 - 2) The member may elect to become a member of the second system. His account balance in the CBP will be frozen. He will receive service credit in the second system for benefit eligibility purposes, but not for the calculation of benefits.
 - f. No member of a CBP will be allowed to transfer to the CBP benefits earned under a DB plan.
 - g. No member of a CBP shall be permitted to purchase service credits.
2. Vesting Rules
 - a. A member of a CBP shall be entitled to a refund of his employee contributions without interest if his period of active service in the CBP upon termination of employment is less than 5 years.
 - b. A member of a CBP shall be entitled to his account balance in the CBP if his period of active service in the CBP upon termination of employment exceeds 5 years.
 3. Disability Retirement Rules
 - a. Rules pertaining to a CBP member who receives a Tier 1 disability benefit.
 - 1) The member's account balance shall be retained by the retirement system until his death and then it will be forfeited.
 - 2) If the member's disability ceases and he does not return to active service, then the member has the following options.
 - a) The member will receive his account balance minus the sum of all disability benefits he has received, or
 - b) The member will receive an annuity based on his account balance when he became disabled.
 - 3) If the member's disability ceases and he returns to active service, then:
 - a) The member's account balance at the time of his disability shall be restored.
 - b) He shall resume earning interest and pay credits.
 - 4) The period of time the member was disabled shall not be considered active service. His account balance is frozen throughout the period of his disability.
 - b. Special rules pertaining to a CBP member who becomes disabled after attaining retirement eligibility or who attains retirement eligibility after being retired for disability. Such a member will have the following options.
 - 1) The member may receive or continue to receive the Tier 1 benefit to which he is entitled. If he elects this option:
 - a) His account balance will be forfeited.
 - b) If he subsequently returns to active service, his service credits will be re-established but his account balance will begin at zero.
 - 2) The member may retire under the CBP.
 4. Dual Membership
 - a. Any member of a DB plan who also is a member of a CBP shall be considered to be a member of both plans. Such a member is entitled to all options, obligations and benefits of each respective plan.
 - b. The following terms have meaning relative to Dual Membership.

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- 1) Tier 1 Contributions – the sum of all employee contributions while a member of a DB plan excluding interest on the repayment of a refund.
 - 2) Dual Member – a member of any plan in a DB plan who is also a member of a CBP.
- c. A member exercising his membership rights in one plan will not affect the member’s rights in the other plan.

Implications of the Proposed Changes

HB 68 contains technical adjustments to the cash balance plan to clarify certain provisions.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The actuarial present value of future benefit payments may increase or decrease as a result of HB 68. A precise measurement cannot be made. However, any increase or decrease in cost will be negligible.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 68 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

Expenditures and revenues may either increase or decrease as a result of HB 68. However, such increases or decreases cannot be measured and are expected to be negligible.

The retirement systems report no additional administrative costs associated with the implementation of the CBP over and above amounts already reported under HB 61 of the 2012 regular session of the legislature.

Other Considerations

The effects of the cash balance plan, as modified by HB 68, relative to current DB plan provisions will not be felt by stakeholders to the retirement systems until the CBP is implemented on July 1, 2013. The present value of future benefit payments under the cash balance plan will be greater than the present value of future benefits under the current DB plan. The cash balance plan is more costly than the DB plan.

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