


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 6**

<p>House Bill 6 HLS 14RS-305 Original</p> <p>Author: Representative J. Kevin Pearson</p> <p>Date: March 12, 2014</p> <p>LLA Note HB 6.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR +\$11,694,238 FC GF EX</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 6 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/TEACHERS: Establishes a minimum employer contribution rate for the Optional Retirement Plan in the Teachers' Retirement System of Louisiana

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.

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$ 151 million
Total Five Year Fiscal Cost	
Expenditures	\$ 116,942,380
Revenues	\$ 58,471,190

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>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	\$ 151 million
Other Post Retirement Benefits	\$ 0
Total	\$ 151 million

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	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 58,471,190
Agy Self Generated	11,694,238	11,694,238	11,694,238	11,694,238	11,694,238	58,471,190
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	\$ 23,388,476	\$ 23,388,476	\$ 23,388,476	\$ 23,388,476	\$ 23,388,476	\$ 116,942,380

REVENUES	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	11,694,238	11,694,238	11,694,238	11,694,238	11,694,238	58,471,190
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	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 11,694,238	\$ 58,471,190

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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

Bill Information:

There are two sub plans applicable to higher education members of the Teachers' Retirement System of Louisiana (TRSL).

1. A traditional defined benefit plan for members first employed on or before June 30, 2013, and
2. An alternative defined contribution plan – referred in law as the Optional Retirement Plan (ORP) – that may be elected by any employee in higher education at the time of employment in lieu of participating in the traditional defined benefit plan.

The total employer contribution rate for employees in higher education consists of an employer normal cost rate and an employer unfunded accrued liability (UAL) rate. A member who elects to participate in ORP contributes the same amount annually as he would have been required to contribute had he not elected ORP. Similarly, his employer contributes to ORP on his behalf the same employer normal cost rate that it would have been required to contribute had the member not elected ORP. The employer contributes the employer UAL contribution to TRSL regardless of whether or not the employee has elected to participate in ORP.

Employee and employer normal cost rates for FYE 2014 applicable to higher education members of TRSL are summarized below.

Employee and Employer Contributions Requirements for Higher Education Members of TRSL

Fiscal Year Ending	Employee Contribution Rate	Employer Normal Cost Rate
June 30, 2015	8.0%	4.1206%

Note: These contribution rates pertain regardless of whether the employee elected or did not elect to participate in ORP.

Employee and employer contributions are remitted to TRSL regardless of a member's ORP election. TRSL retains the contributions if a member did not elect ORP. TRSL forwards employee contributions and employer normal cost contributions made on behalf of ORP members to the vendors engaged to provide defined contribution and investment services. Note: TRSL retains 5 basis points of employee contributions to ORP as an administrative fee.

Proposed Law

Under proposed law, the employer contribution rate for each ORP participant of TRSL will be the greater of:

1. The employer normal cost for higher education members participating in the defined benefit plan plus amortization costs, or
2. 6.25% of pay plus amortization costs.

Implications of the Proposed Changes

If HB 6 is enacted, employees in higher education who have elected to participate in ORP will receive a larger employer contribution than they would have received otherwise.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

There are about 7,500 members of TRSL who participate in ORP. The projected payroll associated with these members for FYE 2015 is \$549,179,973. The effect that HB 6 will have on employer contribution requirements to TRSL is discussed below.

1. For FYE 2015, employers are expected to pay \$22,629,510 (\$549,179,973 million x 4.1206%) to TRSL under current law to provide funds to be deposited into the individual defined contribution plan accounts of members participating in ORP.
2. If HB 6 is enacted, employers will be expected to pay \$34,323,748 (\$549,179,973 x 6.25%).
3. Employer contribution requirements pertaining to ORP members are expected to increase \$11,694,238 a year.

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4. If we assume the annual cost difference continues indefinitely, the present value cost is approximately \$151 million. These are all future costs. No unfunded actuarial accrued liability will be created by HB 6.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 6 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 6 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase \$11,694,238 per year. Employers of higher education teachers participating in ORP will be contributing a larger amount than they would have otherwise.
2. Expenditures from TRSL (Agy Self-Generated) will increase \$11,694,238 per year. TRSL must forward this amount to the ORP vendors as soon as it is received from employers.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase \$11,694,238 per year. Employers of ORP members must contribute the larger amount on behalf of ORP participants.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report prepared by the office of the Legislative Auditor which will be presented to PRSAC on March 18, 2014.

Actuarial Caveat

There is nothing in HB 6 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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.