2014 REGULAR SESSION
ACTUARIAL NOTE HB 29

House Bill 29 HLS 14RS-450 **Original** **Author: Representative Kenny Cox** **Date: March 12, 2014** **LLA Note HB 29.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR +$2,500,000 FC GF LF EX**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 29 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/TEACHERS: Provides relative to rehired retirees of 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	$ 32 million
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

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:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$ 32 million
Other Post Retirement Benefits	See Actuarial Cost Analysis
Total	See Actuarial Cost Analysis

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

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	$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	2,520,690	$ 2,500,000	$ 2,500,000	$ 2,500,000	$ 2,500,000	$ 12,520,690
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 2,520,690	Increase	Increase	Increase	Increase	Increase

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	0	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase

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Dual Referral:

Senate	House
[x] 13.5.1 ≥ \$100,000 Annual Fiscal Cost	[ ] 6.8(F) ≥ \$500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ \$500,000 Annual Tax or Fee Change

Bill Information:

Current Law

Under current law, pension benefits payable by TRSL to teachers who return to work after retirement are potentially subject to suspension. Benefits are suspended based on the particular need of an employer as defined in the law. Rules pertaining to the suspension of benefits are summarized below.

General Rules

The following rules apply to all retired members who return to public employment in a position that would otherwise require participation in TRSL.

1. The retiree shall have his benefit suspended for the duration of his period of re-employment.
2. Neither the retired member nor the employer shall make contributions to TRSL during his period of reemployment.
3. The retired member shall not accrue any pension benefits during his period of reemployment.

However, exceptions to general rules pertain to retirees who return to work under certain specified conditions. In some circumstances benefits are subject to a temporary suspension. Under other conditions, benefits are suspended after a re-employed retiree has attained a specified earnings limitation.

Retired Teachers Subject to Temporary Benefit Suspension

Benefits of certain re-employed retirees are suspended only during the first year of retirement. Rules pertaining to this exception are summarized below.

1. The following retirees are defined as retired teachers subject to a temporary suspension of benefit.
   a. A retiree who returns to active service as a certified classroom teacher (K through 12) in a critical shortage area. Critical shortage area is defined as any subject area where a shortage of certified teachers has been confirmed by the employer and its governing authorities.
   b. A retiree who returns to active service as a full-time certified speech therapist, speech pathologist, or audiologist in a school district where a shortage of such positions exists.
   c. A retiree who returns to active service on or before June 30, 2010.
   d. A retiree who returns to active service who retired between May 1, 2009 and June 30, 2010, who returns in a position requiring a certificate.
   e. A retiree who holds an advanced degree in speech therapy, speech pathology, or audiology.
2. Benefit Suspension Rules
   a. The benefits of any retiree in this category who returns to active employment before 12 months have passed since his retirement date shall be suspended while he is reemployed. Such suspension will end upon the earlier of his termination of reemployment or the first anniversary of his retirement.
   b. The benefits of any retiree reemployed 12 months or more following the date of his retirement will not be suspended.
   c. Neither the reemployed Retired Teacher nor his employer shall make contributions to TRSL during any period in which his benefits are suspended.
   d. Both the reemployed Retired Teacher and his employer shall make contributions to TRSL during any period in which his benefits are not suspended.
   e. A reemployed Retired Teacher will not accrue any benefits during his reemployment.
   f. Upon termination of his reemployment a reemployed Retired Teacher may apply for a refund of the contributions (without interest) he made to TRSL during his reemployment.

g. Employer contributions made to TRSL during the reemployment of a reemployed Retired Teacher are not refundable to the employer.

Retired Teachers Subject to an Earnings Limitation

Benefits of certain re-employed retirees are suspended if their earnings exceed a specified amount. Rules pertaining to this exception are summarized below.

1. The following retirees are defined as retired teachers subject to an earnings limitation.

   a. A retiree who returns to work as a substitute classroom teacher (K through 12).

   b. A retiree who returns to active service and is assigned the professional activities of instructing adults through an adult education or literacy program administered through a public institution of elementary or secondary education.

   c. A retiree who is a certified teacher who returns to active service as an adjunct professor engaged in research or instructions of students.

2. Benefit Suspension Rules

   a. The benefits of any retiree in this category who is reemployed will be suspended in a given fiscal year as soon as his earnings from reemployment exceed 25% of his annual pension benefit.

   b. Neither the reemployed Retired Teacher nor his employer shall make contributions to TRSL during any period in which his benefits are suspended.

   c. Both the reemployed Retired Teacher and his employer shall make contributions to TRSL during any period in which his benefits are not suspended.

   d. A reemployed Retired Teacher will not accrue any benefits during his reemployment.

   e. Upon termination of his reemployment a reemployed Retired Teacher may apply for a refund of the contributions (without interest) he made to TRSL during his reemployment.

   f. Employer contributions made to TRSL during the reemployment of a reemployed Retired Teacher are not refundable to the employer.

Proposed Law

HB 29 changes the general rule and eliminates the exception pertaining to retired teachers subject to an earnings limitation. Provisions of HB 29 are summarized below.

General Rule

Under HB 29, the following rules will apply to all retired members who return to public employment in a position that would otherwise require participation in TRSL.

1. The retiree shall have his benefit suspended once his employment earnings in a given fiscal year exceed 25% of the retiree's annual pension benefit.

2. Neither the retired member nor the employer shall make contributions to TRSL during his period of reemployment.

3. The retired member shall not accrue any pension benefits during his period of reemployment.

HB 29 provides one exception to the general rule. This exception pertains to retired teachers subject to temporary benefit suspension. Current rules pertaining to this exception are not changed by HB 29.

Implications of the Proposed Changes

HB 29 will allow any TRSL retiree to return to work and receive full retirement benefits while reemployed as long as his reemployment earnings do not exceed 25% of his pension benefit.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

Legislation that allows a member of TRSL to collect a pension and continue to work in a position requiring active membership in the retirement system will have an actuarial cost if such legislation induces such a member to retire earlier than he would have otherwise. By retiring early, TRSL will be required to pay a pension to such a member for a longer period of time and contributions made to the system on the member's behalf will be reduced. This will be offset to a minor extent because the member will forego additional benefit accruals that he would otherwise have earned.

There is a cost to HB 29. Under the proposed law, some members will base their decision to retire in whole or in part on the fact that they can return to work and supplement their income. They can be partially working and fully retired. Without HB 29, some of these same members would have remained fully employed without collecting a pension benefit.

Prior to the enactment of HB 519 which became Act 921 of 2010, a member of TRSL was allowed to retire, return to work, and collect both a pension and a paycheck 12 months after his retirement date. Benefits payable to a reemployed retiree were suspended by TRSL only if the retiree was working during the 12 month period immediately following his date of retirement.

This rule, which became known as the "Two Check Rule", had been in place for about 10 years. Prior to the enactment of the Two Check Rule, there were only about 3,000 retirees in a re-employment status each year. In 2008-09 there were about 7,500 re-employed retirees. Clearly, retirement patterns changed as a result of the Two Check Rule. Many workers elected to retire, returned to work, and then after one year earned a full salary and at the same time collected a full pension.

Act 921 of the 2010 session eliminated the Two Check Rule and essentially made it difficult for a member of TRSL to collect a salary and a pension at the same time. Although the Two Check Rule was preserved under very limited circumstances, it was anticipated that Act 921 would result in members delaying retirement until they were truly ready to leave the school or classroom. The actuarial note for Act 921 estimated annual savings five years after the enactment to be about $108 million. The estimate was based on the additional contributions that would be made to TRSL and the reduction in benefit payments that would be made from the retirement system due to workers postponing retirement.

HB 29 will eliminate some of the savings estimated for Act 921. If HB 29 is enacted, we assume some workers will elect to retire earlier than they would have otherwise. Without HB 29, a TRSL member may not be able to afford to retire. But with the ability to supplement his or her income from returning to work, retirement may appear to be affordable. The fundamental question is, "How many members will be induced to retire earlier than they would have otherwise and what is the cost associated with the inducement?" The earnings limitation of HB 29 is quite restrictive. However, it is likely that some members will be induced to retire earlier than they would have otherwise because they can enhance their retirement income by 25% through reemployment.

If HB 29 is enacted, the maximum that a career member of TRSL may work after retirement is 45 days, assuming a 180-day school year, a retiree with 40 years of service and benefit equal to 100% of his final average compensation. Although the earnings limitation of HB 29 is quite restrictive, it still gives a member of TRSL the opportunity to plan his retirement around his ability to work post retirement and supplement his retirement income. Therefore, in preparing this actuarial note, we have assumed the following:

1. No member will continue to work beyond the date that his benefit would otherwise be suspended.

2. Some members will plan their retirement with the idea that they can return to work and supplement their retirement income.

The number of members who will be induced to retire earlier than they would have otherwise as a result of HB 29 cannot be predicted with any degree of certainty. However, if 100 members retiring in a given year retire one year earlier than they would have otherwise, the annual retiree payroll for TRSL will increase $2,500,000. This is based on the following information:

1. On average, 3,500 members of TRSL retire each year.
2. One in 35 of these retirees (or 100 in total) are induced to retire one year earlier than they would have otherwise.
3. The average annual pension for those induced to retire early is $25,000.

Therefore, the estimated annual cost is $2,500,000 (100 x $25,000).

The actuarial present value of future benefit payments will increase approximately $32 million. This is based on the assumption that 100 additional retirees will be collecting benefits each year in the future under HB 29 that would not have been collected otherwise.

Other Post Retirement Benefits

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from employee to retiree. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from an active status to a retired status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 29.

2. Employer premium expenditures may increase or decrease as a result of HB 29.

Analysis of Fiscal Costs

HB 29 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from General Revenues will increase to the extent that higher education members of TRSL are induced to retire earlier than they would have otherwise. Unanticipated TRSL expenditures will lead to higher employer contribution requirements.

2. Expenditures from TRSL (Agy Self-Generated) will increase $2,500,000 a year in order to pay benefits that would have otherwise not have been paid. Administrative expenses will increase $20,690 in FYE 2015.

3. Expenditures from Local Funds will increase to the extent that K-12 members of TRSL are induced to retire earlier than they would have otherwise. Unanticipated TRSL expenditures will lead to higher employer contribution requirements.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contribution must be larger to accommodate the estimated increase in annual benefit costs.

The sum of cost increases identified under Expenditure Items 1 and 3 is equal to the increase in TRSL revenue.

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 29 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.