


**2014 REGULAR SESSION  
ACTUARIAL NOTE HB 86**

<p><b>House Bill 86 HLS 14RS-411 Original</b></p> <p><b>Author: Representative Barry Ivey</b></p> <p><b>Date: March 19, 2014</b></p> <p><b>LLA Note HB 86.01</b></p> <p><b>Organizations Affected: State Retirement Systems</b></p> <p><b>OR DECREASE APV</b></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 86 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/COLAS: Provides for application of a portion of state retirement system investment returns to system debt and increases the threshold that must be met prior to funding state retirement system experience accounts.

**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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

**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.

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

**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.

<b>EXPENDITURES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
State General Fund	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

<b>REVENUES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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**Bill Information:**

**Current Law**

Current law establishes experience accounts within the four state retirement systems: Louisiana State Employees' Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), Louisiana School Employees' Retirement System (LSERS), and Louisiana State Police Retirement System (STPOL). These accounts were established to provide a mechanism for funding cost-of-living adjustments for retirees and beneficiaries of such systems. The experience accounts are credited with up to 50% of the investment gains the system above its actuarial assumed rate of return.

For LASERS and TRSL, current law establishes an Original Amortization Base (OAB) and an Experience Account Amortization Base (EAAB). The OAB is a consolidation of the initial unfunded accrued liability established in 1888 and all credit bases created between 1988 and 2009. The EAAB is a consolidation of all charge bases created between 1988 and 2009.

Under current law for LASERS, the first \$50 million in investment gains above the system's actuarially assumed rate of return are required to be applied to reduce the outstanding balance of the OAB. The next \$50 million of investment gains are required to be used to reduce the outstanding balance of the EAAB. The new balances of the OAB and EAAB are required to be re-amortized. Fifty percent of any remaining investment gains are transferred to the experience account.

Under current law for TRSL, the first \$100 million in investment gains above the system's actuarially assumed rate of return are required to be applied to reduce the outstanding balance of the OAB. The next \$100 million of investment gains are required to be used to reduce the outstanding balance of the EAAB. The new balances of the OAB and EAAB are required to be re-amortized. Fifty percent of any remaining investment gains are transferred to the experience account.

Neither LSERS nor STPOL have an OAB or EAAB. There are no investment gain thresholds that must be attained. Fifty percent of all investment gains of each system are transferred to the experience account of the system.

Under current law for all four state systems, the formula for determining the employer contribution rates is established and includes amounts to cover the amortization payments for each of the systems.

**Proposed Law**

HB 86 establishes a new threshold that must be achieved before any investment gains may be transferred to the experience account. The provisions of HB 86 will require the following beginning with the June 30, 2014 valuations:

**LASERS**

1. Investment gains shall be first used to reduce the OAB. A portion of the total investment gain will be applied to the outstanding balance of the OAB. The amount that will be so allocated will be equal to the greater of:
  - a. \$50 million, and
  - b. 50% of gains attributable to investment returns above the assumed actuarial rate of return and below 10%.
2. Investment gains will next be used to reduce the EAAB. A portion of the remaining investment gains will be applied to the outstanding balance of the EAAB. The amount that will be so allocated will be equal to the greater of:
  - a. \$50 million, and
  - b. Any remaining funds attributable to investment returns above the assumed actuarial rate of return and below 10%.
3. The new outstanding balances of the OAB and EAAB shall be re-amortized over the remaining period.
4. Fifty percent of any remaining investment gains will be transferred to the Experience Account.

**TRSL**

1. Investment gains shall be first used to reduce the OAB. A portion of the total investment gain will be applied to the outstanding balance of the OAB. The amount that will be so allocated will be equal to the greater of:
  - a. \$100 million, and
  - b. 50% of gains attributable to investment returns above the assumed actuarial rate of return and below 10%.
2. Investment gains will next be used to reduce the EAAB. A portion of the remaining investment gains will be applied to the outstanding balance of the EAAB. The amount that will be so allocated will be equal to the greater of:
  - a. \$100 million, and
  - b. Any remaining funds attributable to investment returns above the assumed actuarial rate of return and below 10%.
3. The new outstanding balances of the OAB and EAAB shall be re-amortized over the remaining period.
4. Fifty percent of any remaining investment gains will be transferred to the Experience Account.

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### LSERS and STPOL

1. Investment gains attributable to investment returns above the assumed actuarial rate of return and below 10% shall be used to reduce the outstanding balance of the oldest outstanding charge base. If these gains are more than sufficient to fully amortize a charge base, the gains will be used to reduce the outstanding balance of the next oldest charge, and so on until the unfunded accrued liability of the system is liquidated.
2. The new outstanding balances of the reduced charge bases shall not be re-amortized. Existing amortization payment schedules will remain in place, even for the bases that have been liquidated. Amortization schedules for charge bases that have been reduce to zero will remain in place until the system's unfunded accrued liability has been completely eliminated.
3. Fifty percent of any investment gain above a 10% actuarial rate of return will be transferred to the Experience Account.

### **Implications of the Proposed Changes**

HB 86 reduces the amount of investment gain that will be transferred to the experience accounts of the four state retirement systems. It increases the amount of investment gain that will be used to reduce the unfunded accrued liability of each system.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

##### **Retirement Systems**

There is no guarantee that future PBI legislation will follow the eligibility criteria or formulas contained in current law that until now has been subject to a substantively automatic approval process. Nor is there any guarantee, that PBIs in the future will even be based on the balance in the Experience Account. However, as long as the Experience Account is in law, it is likely that the balance in the Experience Account will have some influence on the size of any PBI given. It is also likely that enactment of HB 86 will delay and limit the size of the future PBI grants given by the legislature.

The potential dollar effect of HB 86 can be measured only with the use of Monte Carlo simulations, which have not been performed for this analysis. However, we nevertheless can conclude the following:

1. The actuarial present value of future benefits will be reduced as a result of HB 86. Less money will go into the experience account and more money will be available to reduce the unfunded accrued liability of the systems.
2. Benefits payable from the systems will potentially be reduced.
3. Employer contributions to the systems will be reduced.

##### **Other Post Retirement Benefits**

There are no actuarial costs associated with HB 86 for post-employment benefits other than pensions.

#### **Analysis of Fiscal Costs**

HB 86 will have the following effects on fiscal costs during the five year measurement period.

##### Expenditures:

1. Expenditures from the General Fund will decrease because employer contribution requirements will decrease.
2. Expenditures from LASERS, TRSL, LSERS and STPOL (Agy Self-Generated) will be reduced because benefits payable from the system will potentially be reduced.
3. Expenditures from Local Funds will be reduced because employer contribution requirements will decrease.

##### Revenues:

- LASERS, TRSL, LSERS and STPOL (Agy Self-Generated) revenues will decrease because employer contribution requirements will decrease.

### **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 approved by PRSAC. The actuary signing this note may or may not agree with or endorse these assumptions. He is using this data, methods and assumptions to provide consistency with the actuaries for the retirement systems who may be providing testimony to the Senate and House retirement committees.

Article (10)(29)(F) of the Louisiana Constitution was amended by the legislature and the voters in 2010. This provision states "*Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be*

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*altered only by legislative enactment. No such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature.”* Based on our reading of the amendment, our discussions with General Council for the LLA, and our discussions with legislative staff, we have concluded for the purposes of this actuarial note, that future transfers of investment gains to the Experience Account will occur until the balance in the Experience Account is equal to the cost of a 6% benefit increase for eligible retirees. However, because future COLA grants will require the introduction of a bill, approval by two-thirds of the House and Senate, and the signature of the governor, we assume that COLA grants are ad hoc, and are not automatic.

**Actuarial Caveat**

There is nothing in HB 86 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.

**Dual Referral:**

**Senate**

- 13.5.1: Annual Fiscal Cost  $\geq$  \$100,000
- 13.5.2: Annual Tax or Fee Change  $\geq$  \$500,000

**House**

- 6.8(F)(1): Annual Fiscal Cost  $\geq$  \$100,000
- 6.8(F)(2): Annual State Revenue Reduction  $\geq$  \$500,000
- 6.8(G): Annual Tax or Fee Change  $\geq$  \$500,000