2014 REGULAR SESSION
ACTUARIAL NOTE SB 25

Senate Bill 25 SLS 14RS-280 Reengrossed with Senate Floor Legislative Bureau Amendment #1064 and Senate Floor Bureau Note #1155 **Author: Senator Elbert L. Gillory** **Date: March 26, 2014** **LLA Note SB 25.03** **Organizations Affected:** **Louisiana School Employees' Retirement System** **RE INCREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 25 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: SCHOOL EMPLOYEES RET. Provides for administration of the system. (2/3 - CA10s29(F)) (6/30/14)

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	Increase
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	Increase
Other Post Retirement Benefits	Increase
Total	Increase

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	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	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	Decrease	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	Decrease	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Current law requires all state and statewide retirement systems to recover overpayments made to members.

Under current law, a person who was first employed on or before June 30, 2010, but who did not become a member of LSERS until after June 30, 2010 is not eligible for a disability benefit.

Current law for LSERS contains various provisions relating to survivor benefits.

Under current law, a person who was first employed on or before June 30, 2010, who has ten or more years of creditable service, may withdraw from service and elect to leave his accumulated contributions in the system and upon reaching age 60, is eligible to receive a retirement benefit.

Proposed Law

SB 25 provides that LSERS will be able to recover overpayments made to members only for such overpayments that occurred during the three year period immediately prior to the date a notice of the error was sent to the participant.

SB 25 provides that a person first employed on or before June 30, 2010, but who did not become a member of LSERS until after June 30, 2010 ***will*** be eligible for a disability benefit.

SB 25 makes technical changes to provision of LSERS law pertaining to survivor benefits. These changes have no effect on benefits.

SB 25 provides that a person first employed on or after June 30, 2010, who has five or more years of creditable service, may withdraw from service and elect to leave his accumulated contributions in the system and upon reaching age 60, is eligible to receive a retirement benefit.

Implications of the Proposed Changes

SB 25 makes technical administrative changes to LSERS law. However, some of these changes will have an effect on benefits and actuarial costs.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 25 has benefit provisions with an actuarial cost.

1. The provision pertaining to overpayments is a benefit provision with an actuarial cost. Under current law, LSERS must recover all overpayments. Under SB 25, LSERS must recover overpayments made in the recent most three year period. As a result the amount that must be paid back by the member is less under SB 25 than under current law. The actuarial cost depends on the number of overpayments, the annual amount of the overpayments, and the duration of the overpayments. Because there is no way to predict this information, the actuarial cost cannot be determined.

2. The provision pertaining to disability benefits is a benefit provision with and actuarial cost. Under current law, a small group of LSERS' members are excluded from the disability benefit provisions of LSERS law. Under SB 25, members of this group will be included. The actuarial cost depends on the number of LSERS members affected by SB 25, the likelihood of these members becoming disabled, and the amount of the disability benefit that would be granted. The number of members who are included under disability provisions as a result of SB 25 who would not be included under current law is small. Therefore the increase in liability is small as well.

The provisions of SB 25 pertaining to survivor benefits do not contain benefit provisions with an actuarial cost. The corrections are completely technical in nature.

Other Post-Employment Benefits

The actuarial cost associated with post-employment benefits other than pensions will increase as a result of SB 25. LSERS members who are now included in disability benefit provisions may potentially retire with a disability benefit and begin receiving post-employment benefits other than pensions earlier that they would have otherwise. The increase in liability is expected to be small.

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Analysis of Fiscal Costs

SB 25 will have the following effect on fiscal costs.

Expenditures:

1. LSERS expenditures (Agy Self-Generated) will increase because SB 25 will allow certain members to be eligible for and to potentially collect disability benefits.

2. Expenditures from Local Funds will increase as employer contributions increase to accommodate the increase in disability benefit costs.

3. It is not expected that expenditure in of the three years immediately following the 2014 legislative session will exceed $100,000.

Revenues:

1. LSERS revenues (Agy Self-Generated) will increase as employer contributions increase to accommodate the increase in disability benefit costs.

2. LSERS revenues (Agy Self-Generated) will decrease to the extent that a benefit calculation is made resulting in an overpayment. LSERS will be able to recover overpayments made over the last three years under SB 25. Under current law, all overpayments had to be recovered. It is anticipated than such loss of recovery right will reduce revenues by less than $100,000 is any given year.

3. It is expected than net revenues will increase beginning FYE 2016.

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. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in SB 25 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	House
☐ 13.5.1: Annual Fiscal Cost ≥ $100,000	☐ 6.8(F)(1): Annual Fiscal Cost ≥ $100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ $500,000	☐ 6.8(F)(2): Annual Revenue Reduction ≥ $100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ $500,000