


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 35**

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| <p>House Bill 35 HLS 14RS-676 Original</p> <p>Author: Representative Sam Jones</p> <p>Date: April 29, 2014</p> <p>LLA Note HB 35.01</p> <p>Organizations Affected: Louisiana School Employees' Retirement System</p> <p>OR +\$30,667,812 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 35 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/COLAS: Provides a supplemental benefit increase to certain qualifying retirees and beneficiaries of the Louisiana School Employees' Retirement System

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 | \$30,667,812 |
| Total Five Year Fiscal Cost | |
| Expenditures | See below |
| 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.

| <u>Actuarial Cost/(Savings) to:</u> | <u>Change in the Actuarial Present Value</u> |
|--|---|
| All Louisiana Public Retirement Systems | \$30,667,812 |
| Other Post Retirement Benefits | \$0 |
| Total | \$30,667,812 |

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 | See Below | See Below | See Below | See Below | See Below | See Below |
| 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 | See Below | See Below | See Below | See Below | See Below | See Below |

| 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 | 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:

Current Law

Article 10(29)(F), enacted by the legislature and the voters in 2010, states “Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be 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 Counsel 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.

Current law provides a legal template that the legislature may choose to adopt in the enactment of permanent benefit increases (PBI). This template specifies eligibility criteria, which is generally age 60 with one year of retirement, and the basis for the amount of a PBI grant, which is the CPI-U. There is no requirement that PBI legislation follow the template. Nor is there any guarantee that PBIs in the future will even be based on the balance in the Experience Account.

The PBI template provides the following:

Eligibility:

The following retirees and beneficiaries of the Louisiana School Employees’ Retirement System (LSERS) will be eligible for a PBI.

1. Each retiree who satisfies all of the following criteria on June 30, 2014:
 - Has received a benefit for at least one year, and
 - Has attained at least age 60.
2. Each non-retiree beneficiary (including each survivor of a deceased active member) receiving a benefit on June 30, 2014, who satisfies all of the following criteria:
 - The deceased member or beneficiary or both combined have received benefits for at least one year, and
 - The deceased member would have been at least age 60 had he lived.
3. Each disability retiree and each beneficiary who is receiving benefits based on the death of a disability retiree, who also on June 30, 2014, has been receiving benefits for at least one year.

Permanent Benefit Increase

- Based on the template law, each eligible retiree and beneficiary will be eligible for a 1.5% PBI on the portion of a retiree/beneficiary’s benefit that is less than \$94,313.

Proposed Law

HB 35 provides that the entire balance of the Experience Account on July 1, 2014 will be used to provide a permanent benefit increase to eligible retirees. It is estimated that the total amount of increase that can be granted is 2.9% x the current annual benefit of eligible retirees and beneficiaries. The permanent benefit increase will be based on the first \$94,313 of the benefit currently payable. In other words, the maximum permanent benefit increase that may be granted is \$2,735.08 per year.

The benefit increase provided by HB 35 shall become effective July 1, 2014.

Implications of the Proposed Changes

As a result of HB 35, amounts in the LSERS Experience Account will be used to provide permanent benefit increases for eligible retirees and beneficiaries. The amount of benefit increase that can be granted is estimated to be 2.9%.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The actuarial present value of future benefits of LSERS will increase \$30,667,812 if HB 35 is enacted. Additional information is shown below:

| Eligible Members | Number | Increase in Accrued Liability |
|---|---------------|--------------------------------------|
| Retirees with one year of retirement age 60 and older | 9,438 | \$ 25,889,867 |
| Beneficiaries and Survivors | 2,186 | 4,210,734 |
| Disability Retirees | 306 | 567,211 |
| Total | 11,930 | \$ 30,667,812 |

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If HB 35 is enacted, \$30,667,812 will be transferred from the Experience Account to the Regular Benefit Account to offset the additional liability incurred by the retirement system. Employer contributions will not change.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 35 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 35 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will not change.
2. Expenditures from LSERS (Agy Self-Generated) will increase beginning FYE 2015 as larger pension benefits are distributed. There will be an outflow of funds from the System for the PBI payments to eligible retirees and beneficiaries in the following amounts by year.

| Fiscal Year | Increase in LSERS Expenditures |
|-------------|-----------------------------------|
| 2014-15 | \$ 3,377,808 |
| 2015-16 | 3,270,519 |
| 2016-17 | 3,160,082 |
| 2017-18 | 3,046,761 |
| 2018-19 | 2,930,844 |
| Total | \$ 15,786,014 |

3. Expenditures from Local Funds will not change.

Revenues:

- LSERS revenues (Agy Self-Generated) will not change. Assets in the Experience Account will be transferred to the Regular Benefit Account to cover the additional liability associated with the enactment of HB 35.

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 HB 35 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 State 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