2015 REGULAR SESSION
ACTUARIAL NOTE SB 16

Senate Bill 16 SLS 15RS-2 **Engrossed with Senate Retirement Committee Amendment #720** **Author: Senator Elbert L. Guillory** **Date: April 22, 2015** **LLA Note SB 16.02** **Organizations Affected:** **All State Retirement Systems** **EG INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 16 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 SYSTEMS. Provides for application of excess investment earnings of the state retirement systems (2/3 - CA10s29) (6/30/15)

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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 to Retirement Systems	Increase
Total Five Year Fiscal Cost	
Expenditures	$0
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.

Actuarial Cost to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	$0
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 the retirement systems and other government entities.. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2019-2020**	**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

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2019-2020**	**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

Bill Information:

Current Law

Current law provides pension provisions and benefits for 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).

Current law determines the actuarially required employer contribution for each of the four state retirement systems as the sum of the following:

1. The employer normal cost;

2. The annual amortization payment necessary to amortize changes in unfunded accrued liabilities (UAL) occurring in prior years;

3. The annual amortization payment necessary to amortize the most recent year's over- or under-payment of employer contributions; and

4. The annual amortization payment necessary to amortize changes in UAL resulting from gains/losses, asset valuation method changes, changes in actuarial assumptions or funding methods, and benefit changes occurring over the most recent year.

Current law provides special amortization bases for LASERS and TRSL called the original amortization base (OAB) and the experience account amortization base (EAAB).

Current law establishes the experience account (EA) with allocations designed to accumulate monies to fund permanent benefit increases (PBIs), sometimes called cost-of-living adjustments (COLAs), for retirees and beneficiaries.

Proposed Law

SB 16 generally rearranges the content of current law to provide for ease of administration and clarification of certain actuarial concepts. These are no actuarial costs or savings associated with this rearrangement.

SB 16 also adds or changes provisions that were inadvertently omitted from Act 300 of the 2014 regular session of the legislature. These changes are summarized below.

1. Change in 85% Funding Threshold

    a. Current law provides the following:

        1). If a state system is less than 85% funded, then

            a). PBIs may be granted no more frequently than every other year.
            b). Most actuarial changes, gains, and losses are amortized over 30 years.
            c). No re-amortization to reduce actuarially-required payments on certain debts occurs after application of gains allocated to that debt.

        2). If a state system is 85% funded or more, then

            a). PBIs may be granted annually.
            b). The amortization period for certain actuarial changes, gains, and losses is reduced from 30 years to 20 years.
            c). Certain debt payments are reduced through re-amortization after application of gains allocated to funding that debt.

    b. SB 16 changes the 85% threshold from 85% to 80%.

2. Calculation of the Funded Ratio

    a. Current law does not provide a concise formula for calculating the Funded Ratio used for the Funding Threshold.

    b. SB 16 specifies that the Funded Ratio shall be determined ***before*** any allocation is made to the Experience Account. Note: this is the basis used to prepare the June 30, 2014 actuarial valuations.

3. Resumption of Reallocation of Gains

    a. Under current law, the outstanding liability of certain amortization bases is not re-amortized when the base receives an allocation of gains. Re-amortization of these bases is supposed to resume at some point in time in the future. However, time at which re-amortization is restored is unclear in current law.

    b. Under SB 16, it is clearly specified that re-amortization of bases will be resumed on the valuation date at the end of the fiscal year in which the system becomes 80% funded.

4. 20 Year Amortization Period

   a. There is some ambiguity under current law as to when 20 year amortization of newly established bases will begin.

   b. SB 16 specifies that once a system attains 80% funding new debit and credit bases established thereafter will be amortized over 20 years.

5. Sub Plan Particularized Normal Cost Rates for TRSL

   a. Under current law, each sub plan of TRSL was a normal cost that is calculated as a rate that is applicable to that sub plan.
   b. Under SB 16, normal cost rates for the K-12 teachers sub plan, the Lunch Plan A sub plan, and the Lunch Plan B sub plan will be combined into a single normal cost rate .

6. Level Dollar Amortization of Outstanding Amortization Bases

   a. Current law specifies the amortization periods for all change bases and also mandates increasing payment schedules for the OAB and EAAB for LASERS and TRSL.

   b. Under SB 16, if a change base amortized with level payments over the remaining specified amortization period, produce an annual payment that is less than otherwise required under current law, then the amortization schedule for such base will be permanently changes to the level payment basis and contribution requirements will be reduced.

Implications of the Proposed Changes

SB 16 puts the provisions of Act 399 into the posture that was originally intended. SB 16 also collapses the particularized normal costs for the K-12 teachers, Lunch Plan A, and Lunch Plan B sub plans into a single normal cost applicable to all active members in these sub plans.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

If SB 16 is have the following effects on actuarial costs.

1. **Change in the 85% Threshold –** This is a change that results in a future improvement of benefits. Actuarial costs are likely to increase because limits on PBIs will be reduced when a systems becomes 80% funded instead of 85% funded. Employer contribution requirements will increase when a PBI is granted under SB 16 that would have not been granted under current law.

2. **Calculation of Funded Ratios –** There will be no change in actuarial cost because SB 16 merely codifies the method already employed for the June 30, 2014 valuations. Employer contribution requirements are unaffected.

3. **Resumption of Reallocations of Gains –** This change has no effect on benefits or actuarial costs. However, employer contribution requirements will be reduced when adjustments to the specified bases become effective.

4. **Twenty Year Amortization Period –** This change has no effect on benefits or on actuarial costs. This provision merely provides clarity to current law. Employer contribution requirements are unaffected.

5. **Sub Plan Normal Cost Rates –** This change has no effect on benefits or actuarial costs. Employer contribution requirements in total to TRSL will be unaffected.

6. **Level Dollar Amortization of Outstanding Amortization Bases –** This change has no effect on benefits or on actuarial costs. However, employer contribution requirements will be reduced when adjustments to bases occur.

Other Post-Employment Benefits

There is no actuarial cost associated with SB 16 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Changes in fiscal costs are summarized below:

Expenditures:

1. It is not likely that Expenditures from General Fund will change during the 5-year fiscal measurement period because it is unlikely that any of the events identified as producing a change in employer contributions will occur.

2. It is not likely that Expenditures from TRSL (Agy Self Generated) will change during the 5-year fiscal measurement period because it is unlikely that any of the events identified as producing a larger PBI will occur.

3. It is not likely that Expenditures from Local Funds will change during the 5-year fiscal measurement period because it is unlikely that any of the events identified as producing a change in employer contributions will occur.

Revenues:

- It is not likely that TRSL Revenues (Agy Self Generated) will change during the 5-year fiscal measurement period because it is unlikely that any of the events identified as producing an change in employer contributions will occur.

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 adopted by PRSAC.

Actuarial Caveat

There is nothing in SB 16 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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