2015 REGULAR SESSION
ACTUARIAL NOTE SB 18

Senate Bill 18 SLS 15RS-159 **Original** **Author: Senator Robert R. Adley** **Date: May 13, 2015** **LLA Note SB 18.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR NO IMPACT 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 18 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: TEACHERS RETIREMENT. Provides for higher education liability payments. (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	$0
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 to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

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	Increase	Decrease	Decrease	Decrease	Decrease	Increase
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Decrease	Decrease	Decrease	Decrease	Increase

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	Increase	Decrease	Decrease	Decrease	Decrease	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	Increase	Decrease	Decrease	Decrease	Decrease	Increase

<u>Bill Information:</u>

Current Law

Under current law, government entities engaged in providing higher educational services in Louisiana are required to participate in the Teachers' Retirement System of Louisiana (TRSL) as a participating employer. As a result, employees of participating employers must become either a member of TRSL or a member of the Optional Retirement Program (ORP).

Proposed Law

SB 18 gives the following entities of Higher Education the option to liquidate its unfunded accrued liability under TRSL and freeze future benefit accruals for active employees who are members of the TRSL DB plan.

1. The Board of Regents.
2. The Board of Supervisors for the University of Louisiana System.
3. The Board of Supervisors of Louisiana State University A&M.
4. The Board of Supervisors of Southern University A&M.
5. The Board of Supervisors of Community and Technical Colleges.
6. Any institution under the authority of the Board of Regents or one of the boards of supervisors listed above.

A single entity may make this election or a group of entities may collectively make the election. An elector is defined as a single entity or a group of entities making this election.

Under SB 18, an elector will pay a lump sum amount to TRSL to liquidate its unfunded accrued liability and will freeze future benefit accruals for its active employees participating in the TRSL DB plan. Other provisions of SB 18 are summarized below.

1. Accrued benefits for all employees of an elector will be frozen on the date the elector liquidates its unfunded accrued liability (UAL).

2. All employees and former employees of the elector will remain participants in TRSL. Employees of the elector on the liquidation date will continue to participate in TRSL not as an active participant in TRSL accruing benefits but as a terminated vested participant with a frozen benefit. The status of former employees of the elector who are terminated vested participants in TRSL will not change. They will still be entitled to receive a deferred pension benefit. Former employees of the elector who are retired, disabled, or are deceased with beneficiaries and survivors in pay status will also remain participants of TRSL.

3. No new employee hired by the elector after the liquidation date will be allowed to become a member of TRSL.

4. Retirees, beneficiaries, and survivors of an elector will not be entitled to Permanent Benefit Increases (PBIs) unless the elector pays an additional lump sum to TRSL for this benefit.

Payment to Be Made by the Elector:

1. An elector will liquidate its unfunded accrued liability by paying to TRSL an amount equal to its proportional share of the TRSL unfunded accrued liability.

2. This calculation will be made in the following manner:

    a. The accrued liability for all non-elector employers will be determined based on the assumptions and methods used in the most recent valuation approved by PRSAC.

    b. The accrued liability for all electors will be determined based on the assumptions and methods used in the most recent valuation approved by PRSAC and as measured after benefit accruals are frozen for existing employees of the electors.

    c. The electors' share of TRSL actuarial value of assets shall be equal to the TRSL actuarial value of assets multiplied by the ratio of the electors' accrued liability to the total TRSL accrued liability.

    d. TRSL will accept bids for a single premium annuity contract with an insurance carrier to provide the benefit otherwise promised by TRSL to employees and former employees of the electors. The elector may choose to include PBIs in this contract or may elect not to provide PBIs to its employees and former employees.

    e. The elector's liquidation payment will be equal to the value of the single premium for a group annuity contract minus TRSL assets allocated to the elector.

3. TRSL may elect to transfer its risk associated with an elector by completing the contract purchase identified in Item 2d. Alternatively, TRSL may assume the all demographic and investment risks associated with the elector.

Future Liabilities and Contributions for the Elector:

1. No further actuarial liabilities, funded or unfunded, shall accrue to the elector after the date selected by the elector to liquidate its UAL.

2. The elector's obligation to TRSL will cease as of the liquidation date. No future contributions will be required from the elector.

Implications of the Proposed Changes

Under SB 18, an electing entity associated with Higher Education will have the option to settle or liquidate its unfunded accrued liabilities associated with its employees and former employees who are participating or who have participated in TRSL. Liquidation will relieve the elector from future contribution requirements and eliminate significant risks it has relative to its UAL, including investment and mortality risks. These risks may be transferred to TRSL or to the private sector through the purchase of an annuity contract. The elector will freeze benefit accruals services rendered by its employees after the liquidation date.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 18 will give an elector associated with Higher Education the option to settle or liquidate its obligations to TRSL. If we assume that all Higher Education entities elect to liquidate, then total cost for Higher Education electors will be $3,788 million. This estimate is based on demographic data, actuarial assumptions and methods set forth in the June 30, 2014 valuation of the plan approved by PRSAC. It includes additional premiums associated with additional assumptions of risk by TRSL or by a private insurer.

TRSL's unfunded accrued liability on June 30, 2015 is projected to be $11.868 billion with an accrued liability of $28.709 billion and assets equal to $16.841 billion. The allocation of assets, accrued liability, and unfunded accrued liability to Higher Education and to K-12 and other entities is shown below.

Allocation of Assets, Accrued Liability, and Unfunded Accrued Liability

Elector Grouping	Accrued Liabilities	Actuarial Value of Assets	Unfunded Accrued Liability	Ratio
Higher Education	$ 4,625,000,000	$ 2,713,000,000	$ 1,912,000,000	16.11%
K-12 and Other Entities	24,084,000,000	14,128,000,000	9,956,000,000	83.89%
Total	$ 28,709,000,000	$ 16,841,000,000	$ 11,868,000,000	100.00%

If all of Higher Education becomes an elector and TRSL purchases annuities from an insurer, the accrued liability for Higher education increases from $4.625 billion to $6.501 billion. The lump sum liquidation payment that must be made by Higher Education to TRSL is estimated to be $3,788 million.

Liquidation Payment for Higher Education

Accrued Liability*	$ 6,501,000,000
Assets Allocated to Higher Education	2,713,000,000
Liquidation Payment	$ 3,788,000,000

Other Post-Employment Benefits

There are no actuarial costs associated with SB 18 relative to post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 18 will have the following effect on fiscal costs during the five year measurement period if Higher Education is an elector, it makes its election in FYE 2015, and TRSL chooses not to purchase annuities.

Expenditures:

1. Expenditures from the General Fund will increase for FYE 2015 because of the liquidation payment from Higher Education to TRSL.

2. Expenditures from the General Fund will decrease. The method used to allocate assets to Higher Education will lead to a shift in employer contribution requirements from Higher Education to K-12 and other entities.

3. Expenditures from the General Fund will decrease because no contributions will be made relative to the elector's employees.

4. Expenditures from TRSL (Agy Self-Generated) will decrease. Employees of Higher Education will no longer accrue benefits. Therefore, benefits entitlements from TRSL for Higher Education employees who terminate employment over the five year measurement period will be smaller than they would have been otherwise.

5. Expenditures from Local Funds will increase. The method used to allocate asset to Higher Education will lead to a shift in employer contribution requirements from Higher Education to K-12 and other entities.

Revenues:

1. TRSL revenue (Agy Self Generated) will increase in FYE 2015 because it will receive single lump sum payment from the elector in FYE 2015 to liquidate its unfunded accrued liability.

2. TRSL revenues (Agy Self Generated) 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 adopted by PRSAC.

Actuarial Caveat

There is nothing in SB 18 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
[x] 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