2016 REGULAR SESSION
ACTUARIAL NOTE SB 8

Senate Bill 8 SLS 16RS-69 **Original** **Author: Senator Barrow Peacock** **Date: March 19, 2016** **LLA Note SB 8.01** **Organizations Affected:** Louisiana School Employees' Retirement System **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 8 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: EMPLOYEES RET. Provides relative to deferred retirement option plan subaccount disbursements. (6/30/16)

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	$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	$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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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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<u>Bill Information:</u>

Current Law

Current law provides that, in lieu of terminating employment, any member of the Louisiana School Employees' Retirement System (LSERS) who is eligible for retirement may participate in the Deferred Retirement Option Plan (DROP) and defer receiving retirement benefits for a period that does not exceed three years.

During the period of participation in DROP, the member is treated as a retiree in the retirement system and the retirement benefits are deposited in a notional DROP subaccount. Interest is not credited to the DROP subaccount during the period of participation. Upon existing DROP, if the member leaves the money with the retirement system, the subaccount is placed in money market investment fund.

At the end DROP period or the termination of employment, the member may receive his DROP subaccount in a lump sum payment or in a systemic disbursement form approved by the board of trustees.

Proposed Law

SB 8 removes the requirement that the disbursement of DROP subaccount funds must be "systematic".

Implications of the Proposed Changes

SB 8 will allow the board to approve certain disbursements from DROP accounts that are not systematic.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

SB 8 contains no benefit provisions having an actuarial cost.

Current law requires that disbursements from DROP accounts must be as a single lump sum payment or by payments that are systematic. SB 8 will allow the board broader discretion about the disbursement of DROP funds. The following example will illustrate.

1. A member exits DROP with $90,000 in his DROP account.

2. He elects to receive his DROP account funds in 120 monthly installments of $1,029 each.

3. After 48 months have elapsed, the member has $61,078 in his DROP account. His spouse dies and he needs a one-time $15,000 distribution to pay for the funeral.

4. He asks the board to disburse $15,000.

The board cannot fulfill his request under current law. SB 8 would allow the board to honor such a request. However, any request would continue to require board approval.

Other section of law requires actuarial cost neutrality in any such exchange. In preparing this note, we have assumed actuarially cost neutrality would be maintained. Therefore, there is no actuarial cost associated with SB 8.

Note: the above analysis is hypothetical, used only to illustrate potential effects of the bill. The numbers in the example may or may not reflect actual disbursement values.

Other Post-Employment Benefits

There is no actuarial cost associated with SB 8 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

There is a potential under SB 8 for DROP account funds to be paid from LSERS earlier than they would be otherwise. However it is impossible to know if or when a qualifying request might be made under SB 8. In any event, any increase in benefit disbursements for any given year during the fiscal measurement period would be negligible.

<u>Actuarial Data, Methods and Assumptions</u>

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 8 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