


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 61**

<p>House Bill 61 HLS 16RS-425 Reengrossed 1 with Senate Retirement Committee Amendment #3059</p> <p>Author: Representative Frank Hoffman Date: May 25, 2016</p> <p>LLA Note HB 61.04</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>RE1 INCREASE 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 61 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/TEACHERS: Provides relative to the reemployment of retired school psychologists in positions covered by the Teachers' Retirement System of La.

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 to Retirement Systems	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.

<u>Actuarial Cost to:</u>	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	See Analysis
Total	Increase

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	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	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	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	\$ 0	Increase	Increase	Increase	Increase	Increase

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 61**

Bill Information:

Current Law and Proposed Law

Current law provides suspension of benefit rules for retirees who are reemployed following retirement. Current law and proposed law under HB 61 are summarized below. Note, the following Special Classes of retirees are not specified as such in current law or in HB 61. However, the information pertaining to each Special Class was derived from current and proposed law.

	Current Law	HB 907
General Rule	<ol style="list-style-type: none"> 1. Benefits payable to a reemployed retiree will be suspended for the duration of his reemployment. 2. Benefits payable to a reemployed retiree who retired for disability will be suspended. 	No Change
Rules for Special Class A	<p>A Special Class A retiree includes any retiree who is reemployed into one of the following positions for a district with a critical shortage of teachers willing to fill such positions.</p> <ol style="list-style-type: none"> 1. A full or part-time position as a Pre K-12 classroom teacher. 2. A full-time position as a certified speech therapist, speech pathologist, audiologist, educational diagnostician, or school counselor. <p>Limitations on Earnings for Special Class A Retirees</p> <ol style="list-style-type: none"> 1. Reemployment earnings will be limited to \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits will be reduced dollar for dollar for earnings received from reemployment during the 12-month period immediately following the date of retirement. 3. Thereafter, a retiree will be able to be employed and also receive benefits from TRSL. 	<p>No change except for:</p> <p>HB 61 adds "school psychologists" to the end of the list.</p> <p>HB 61 does not change "first anniversary".</p> <p>HB 61 does not change "12-month period".</p>
Rules for Special Class B	<p>A Special Class B retiree includes any retiree who is reemployed as a result of an agreement between the retired teacher and his employer that satisfies the following conditions:</p> <ol style="list-style-type: none"> 1. The agreement was perfected prior to the retiree's dates of retirement, and 2. The agreement allows for the retiree to become reemployed within the 12-month period immediately following his date of retirement. <p>Limitations on Earnings for Special Class B Retirees</p> <ol style="list-style-type: none"> 1. The earnings limitation will be \$0 until the first anniversary of the retiree's date of reemployment. 2. Benefits from TRSL will be reduced dollar for dollar for any earnings received during the 12-month period immediately following his date of retirement. 3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL. 	<p>No change except for:</p> <p>HB 61 changes "12-month period" to "36-month period"</p> <p>HB 61 changes "first anniversary" to "third anniversary"</p> <p>HB 61 changes "12-month period" to "36-month period"</p>

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 61**

	Current Law	HB 907
Rules for Special Class C	<p>A Special Class C retiree is one who satisfies one of the following conditions:</p> <ol style="list-style-type: none"> 1. A retiree who retired on or before June 30, 2010 2. A retiree who holds an advanced degree in speech therapy, speech pathology or audiology. <p>Limitations on Earnings for Special Class C Retirees</p> <ol style="list-style-type: none"> 1. The earnings limit will be \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received by the retiree during the 12-month period immediately following his date of retirement. 3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL. 	<p>No change except for:</p> <p>HB 61 changes "first anniversary" to "third anniversary"</p> <p>HB 61 changes "12-month period" to "36-month period"</p>
Rules for Special Class D	<p>A Special Class D retiree is employed into one of the following positions:</p> <ol style="list-style-type: none"> 1. A position as a substitute classroom teacher for a K-12 school who teaches any Pre K-12 student. 2. A position that has been assigned by a K-12 school district to the instruction of adults through an adult literacy program. 3. A position as a postsecondary educational institution as an adjunct professor. <p>Limitations on Earnings for Special Class D Retirees</p> <ol style="list-style-type: none"> 1. The earnings limitation will be \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received by the retiree during the 12-month period immediately following his date of retirement. 3. The earnings limitation for the retiree for the period from the first anniversary of his date of retirement to the end of the fiscal year in which that anniversary date occurs will be 25% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received in excess of the limit during this period. 4. The earnings limitation for the retiree for fiscal years thereafter will be 25% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received during a fiscal year that exceeds the 25% limitation. 	<p>No change except for:</p> <p>HB 61 changes "first anniversary" to "third anniversary"</p> <p>HB 61 changes "12-month period" to "36-month period"</p> <p>HB 61 changes "first anniversary" to "third anniversary"</p>

Any retiree who returned to active service before May 15, 2016 will continue to be governed by return to work rules under current law.

2016 REGULAR SESSION ACTUARIAL NOTE HB 61

Implications of the Proposed Changes

Specified professionals are included in the list of retirees subject to Special Class A rules. HB 61 adds school psychologists to the list. HB 61 also extends the waiting period from 12 to 36 months for Special Class B, Special Class C and Special Class D retirees.

Cost Analysis:

Analysis of Actuarial Costs

HB 61 contains benefit provisions containing an actuarial cost. Retired school psychologists who are reemployed will receive larger benefits from TRSL than they would have otherwise.

Retirement Systems

Special Class A Rules

HB 61 affects actuarial costs associated with Special Class A rules in the following manner:

1. School psychologists may be induced to retire earlier than they would have otherwise.
2. A retired school psychologist may be induced to return to employment to increase his income.

Inducement to Retire

Under HB 61, a school psychologist who knows there is a critical shortage of qualified individuals to fill his position may elect to retire, keep working, and then a year later begin to collect his pension as well as his salary. Under current law, his pension would be suspended as long as he continued to work.

The number of psychologists who, as a result of HB 61, will be induced to retire earlier than they would have otherwise cannot be predicted with any degree of certainty. However, if one school psychologist retires each year a full year earlier than he would have otherwise, the annual retiree payroll for TRSL is estimated to increase \$30,000. This assumes the average annual pension for a school psychologist is \$30,000.

Inducement into Reemployment

Under HB 61, a retired school psychologist who has been retired for one or more years and who knows there is a critical shortage of qualified individuals to fill a position of school psychologist may elect to be reemployed. If so, such an individual can be reemployed and collect his full pension as well as his salary. Under current law, his pension benefit would be suspended for as long as he was reemployed.

The number of school psychologists who would be willing to resume employment to take advantage of HB 61 cannot be predicted with any degree of certainty. However, the actuarial cost to TRSL for every school psychologist who is reemployed is estimated to be \$387,000. This estimate is based on the following:

1. The average pension benefit for a retired school psychologist is \$30,000 a year.
2. Under HB 61, a reemployed retired school psychologist continues to receive his \$30,000 a year benefit.
3. Under current law, the pension benefit payable to a reemployed retired school psychologist is suspended.
4. TRSL pays \$30,000 more each year under HB 61 than it would have paid under current law.
5. The present value of an indefinite additional payment of \$30,000 a year is approximately \$387,000.

The number of reemployed retired school psychologists who will benefit from HB 61 is likely to be small primarily because the number of such positions in Louisiana is comparatively small. However, for each school psychologist who is induced to retire (and continue to work) or who is induced to be reemployed, the annual cost to TRSL is estimated to be \$30,000. The present value cost is estimated to be \$387,000.

If there are five retired school psychologist who are working each year because of HB 61, who would have not been reemployed under current law, the estimated annual cost to TRSL is \$150,000. The actuarial cost is estimated to be \$1,935,000.

Extension of Waiting Period

HB 61 extends the waiting period from 12 months to 16 months for all Special Classes except for Special Class A. Actuarial costs will be reduced because all inducements for an active member to retire earlier than otherwise under current law have been eliminated.

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 61**

Net Total Cost

The total net cost for HB 61 as analyzed above cannot be determined with any degree of certainty. Annual fiscal costs are estimated to be \$30,000 a year per school psychologist induced to retire. If each year, five retirees are collecting a benefit under HB 61 that would not have otherwise been paid, the annual cost is estimated to be about \$150,000 a year. The actuarial present value cost per individual is estimated to be \$387,000. The actuarial present value cost for five individuals is estimated to be \$1,935,000.

The change in the waiting period from 12 to 36 months will reduce actuarial present value costs. However, it cannot be measured effectively.

However, we estimate that increases in actuarial costs will exceed decreases and there will be a net cost increase. We estimate the net actuarial present value cost associated with HB 61 will be about \$1.5 million. Net annual fiscal costs will be about \$100,000.

Other Post-Employment Benefits

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from employee to retiree. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from an active status to a retired status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 61.
2. Employer premium expenditures may increase or decrease as a result of HB 61.

Analysis of Fiscal Costs

HB 61 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from the General Fund will not change because HB 61 pertains only to employees of K-12 employers.
2. Expenditures from TRSL (Agy Self-Generated) will increase in order to pay benefits that would not have otherwise been paid.
3. Expenditures from Local Funds will increase to the extent school psychologists are induced to retire earlier that they would have otherwise and to the extent that retired school psychologists are induced to return to work without a suspension of benefits. This will lead to an increase in employer contribution requirements.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contribution requirements will increase.

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 61 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:

<u>Senate</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1: Annual Fiscal Cost \geq \$100,000	<input type="checkbox"/> 6.8(F)(1): Annual Fiscal Cost \geq \$100,000
<input type="checkbox"/> 13.5.2: Annual Tax or Fee Change \geq \$500,000	<input type="checkbox"/> 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
	<input type="checkbox"/> 6.8(G): Annual Tax or Fee Change \geq \$500,000