


**2016 REGULAR SESSION  
REVISED ACTUARIAL NOTE HB 60**

<p><b>House Bill 60 HLS 16RS-390 Engrossed 1 with Senate Retirement Committee Amendment #3058</b></p> <p><b>Author: Representative Blake Miguez Date: May 26, 2016</b></p> <p><b>LLA Note HB 60.03</b></p> <p><b>Organizations Affected: Teachers' Retirement System of Louisiana</b></p> <p><b>EG1 DECREASE APV</b></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 60 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/TEACHERS: Provides relative to the reemployment of retired school nurses 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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

**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.

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

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.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
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	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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**Bill Information:**

**Current Law and Proposed Law**

Current law provides suspension of benefit rules for retirees the Teachers' Retirement System of Louisiana (TRSL) who are reemployed following retirement. Current law and proposed law under HB 60 are summarized below. Note, the following Special Classes of retirees are not specified as such in current law or in HB 60. However, the information pertaining to each Special Class was derived from current and proposed law.

	<b>Current Law</b>	<b>HB 907</b>
General Rule	<ol style="list-style-type: none"> <li>1. Benefits payable to a reemployed retiree will be suspended for the duration of his reemployment.</li> <li>2. Benefits payable to a reemployed retiree who retired for disability will be suspended.</li> </ol>	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"> <li>1. A full or part-time position as a Pre K-12 classroom teacher.</li> <li>2. A full-time position as a certified speech therapist, speech pathologist, audiologist, educational diagnostician, or school counselor.</li> </ol> <p>Limitations on Earnings for Special Class A Retirees</p> <ol style="list-style-type: none"> <li>1. Reemployment earnings will be limited to \$0 until the first anniversary of the retiree's date of retirement.</li> <li>2. Benefits will be reduced dollar for dollar for earnings received from reemployment during the 12-month period immediately following the date of retirement.</li> <li>3. Thereafter, a retiree will be able to be employed and also receive benefits from TRSL.</li> </ol>	<p>No change except for:</p> <p>HB 60 does not change "first anniversary".</p> <p>HB 60 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"> <li>1. The agreement was perfected prior to the retiree's dates of retirement, and</li> <li>2. The agreement allows for the retiree to become reemployed within the 12-month period immediately following his date of retirement.</li> </ol> <p>Limitations on Earnings for Special Class B Retirees</p> <ol style="list-style-type: none"> <li>1. The earnings limitation will be \$0 until the first anniversary of the retiree's date of reemployment.</li> <li>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.</li> <li>3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL.</li> </ol>	<p>No change except for:</p> <p>HB 60 changes "12-month period" to "36-month period"</p> <p>HB 60 changes "first anniversary" to "third anniversary"</p> <p>HB 60 changes "12-month period" to "36-month period"</p>

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	<b>Current Law</b>	<b>HB 907</b>
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"> <li>1. A retiree who retired on or before June 30, 2010</li> <li>2. A retiree who holds an advanced degree in speech therapy, speech pathology or audiology.</li> </ol> <p>Limitations on Earnings for Special Class C Retirees</p> <ol style="list-style-type: none"> <li>1. The earnings limit will be \$0 until the first anniversary of the retiree’s date of retirement.</li> <li>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.</li> <li>3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL.</li> </ol>	<p>No change except for:</p> <p>HB 60 changes “first anniversary” to “third anniversary”</p> <p>HB 60 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"> <li>1. A position as a substitute classroom teacher for a K-12 school who teaches any Pre K-12 student.</li> <li>2. A position that has been assigned by a K-12 school district to the instruction of adults through an adult literacy program.</li> <li>3. A position as a postsecondary educational institution as an adjunct professor.</li> </ol> <p>Limitations on Earnings for Special Class D Retirees</p> <ol style="list-style-type: none"> <li>1. The earnings limitation will be \$0 until the first anniversary of the retiree’s date of retirement.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>No change except for:</p> <p>HB 60 adds item 4: “A position as a school nurse.” to the list of reemployed retirees classified as Special Class D retirees.</p> <p>HB 60 changes “first anniversary” to “third anniversary”</p> <p>HB 60 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.

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**Implications of the Proposed Changes**

HB 60 permits a school nurse retired from TRSL to return to work and continue to receive a retirement benefit under certain circumstances. HB 60 also extends the waiting period from 12 months to 36 months for Special Class B, C, and D retirees.

**Cost Analysis:**

**Analysis of Actuarial Costs**

HB 60 contains a benefit provision having an actuarial cost. An explanation is given below.

**Retirement Systems**

*Cost Analysis Relative to the Addition of School Nurse to Special Class D*

The present value of future benefits, the accrued liability, and annual expenditures from TRSL will increase as a result of HB 60 because:

1. Some retired school nurses will experience a life circumstance making it necessary to return to work in order to have more income.
2. Under current law, such a retired school nurse will not be considered a "Retired Teacher" and his pension benefit will be suspended.
3. Under HB 60, the retired school nurse will be considered a "Retired Teacher" and his pension benefit will not be suspended.
4. Under these circumstances, TRSL will pay more in benefits under HB 60 than it would have paid under current law.

The number of retired school nurses reemployed because of adverse life circumstances is not likely to vary much from year to year. However, national economics could cause greater fluctuations in the number of reemployments.

Based on the number of school districts and the law requiring a nurse to be available for every 1,500 students, we estimate there are about 1,300 school nurse positions in Louisiana. The number of retired school nurses is not known.

We estimate a cost for HB 60 based on the following analysis.

*Situation*

1. A retired school nurse returns to employment after being retired for one year because his life circumstances have changed and he needs additional income.
2. His pension benefit is \$30,000 a year.
3. He returns to work as a school nurse on a full time basis and earns \$48,000 a year.

*Analysis under Current Law*

1. The annual income of the reemployed retired school nurse will only increase \$18,000 a year because he will earn \$48,000 but will forfeit his \$30,000 annual pension benefit from TRSL.
2. A retired school nurse must have a very compelling financial hardship to return to work under these conditions.
3. It is not likely that many retired school nurses will return to work under current law.
4. But, if he does, TRSL will save \$30,000 a year.

*Analysis under HB 60*

1. The annual income of the reemployed retired school nurse will increase \$25,500 a year because he will receive \$7,500 from TRSL and \$48,000 from employment.
2. Under these conditions a retired school nurse is more likely to be induced to return to work.
3. If he does return to work, TRSL will save \$22,500 a year.

*Conclusions*

1. Under HB 60, TRSL will pay the reemployed retired school nurse \$7,500 a year.
2. Under current law, TRSL will pay nothing to the reemployed retired school nurse.

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In light of the above information and analysis and if we assume 5 retired school nurses will be reemployed on a full time basis each year, we expect the annual cost associated with HB 60 to be about \$37,500.

***Cost Analysis Relative to the Extension of the Waiting Period***

HB 60 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.

***Net Total Cost***

The total net cost for HB 60 as analyzed above cannot be determined with any degree of certainty. Annual fiscal costs are estimated to be \$37,500 year for the reemployment of 5 school nurses. The actuarial present value cost per individual is estimated to be \$97,000. The actuarial present value cost for five individuals is estimated to be \$485,000.

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 decreases in actuarial costs will exceed increases and there will be a net cost decrease. We estimate the net actuarial present value cost associated with HB 60 will decrease about \$2 million. Net annual fiscal costs will decrease about \$150,000.

**Other Post Retirement 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 retiree to employee. 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 a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 60.
2. Employer premium expenditures may increase or decrease as a result of HB 60.

**Analysis of Fiscal Costs**

HB 60 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from Local Funds and General Revenues will decrease to the extent that local funds and the MFP for K-12 will need to be adjusted to accommodate smaller retirement plan costs.
2. Expenditures from TRSL (Agy Self-Generated), to pay for benefits to those who would have otherwise had their benefits completely suspended, are estimated to decrease.

Revenues:

- TRSL revenues (Agy Self-Generated) are expected to decrease as employer contribution rates are decreased to accommodate the estimated decrease in annual costs.

**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. 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 60 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.

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**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 Fiscal Cost  $\geq$  \$100,000

6.8(F)(2): Annual Revenue Reduction  $\geq$  \$100,000

6.8(G): Annual Tax or Fee Change  $\geq$  \$500,000