


**2018 REGULAR SESSION
REVISED ACTUARIAL NOTE SB 2**

<p>Senate Bill 2 SLS 18RS-26 Engrossed with Senate Retirement Committee Amendment #809</p> <p>Author: Senator Peacock Date: March 19, 2018 LLA Note SB 2.02</p> <p>Organizations Affected: Louisiana State Police Retirement System</p> <p>EG \$5,163,742 APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: STATE POLICE RET FUND. Authorizes payments funded by the system experience account to certain retirees and beneficiaries. (2/3 - CA 10s29(F)) (6/30/18).

Cost Summary:

The estimated actuarial and fiscal impact of SB 2 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the *actuarial present value of future benefit payments*. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by “Increase” or a positive number. Actuarial savings are denoted by “Decrease” or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by “Increase” or a positive number. A decrease in expenditures or revenues is denoted by “Decrease” or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the *actuarial present value of future benefit payments and expenses*, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:		<u>Actuarial Cost</u>
The Retirement Systems		\$ 5,163,742
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		0
Total		\$ 5,163,742
Five Year Fiscal Cost Pertaining to:	<u>Expenses</u>	<u>Revenues</u>
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Under current law, the board of trustees of a state retirement system may recommend to the legislature that the system be allowed to grant a COLA to retirees and beneficiaries whenever specified conditions are satisfied and there are sufficient assets in the system’s Experience Account to fund the COLA on an actuarial basis. Current law provides for an Experience Account for each state retirement system, which accumulates a specified portion of investment gains and is used to fund permanent benefit increases, otherwise known as cost-of-living adjustments (COLAs). There is a cap on the amount that can be held in the Account. The timing and amounts, as well as the eligibility to receive these COLAs are described in the law.

Note: Transfers from the Core Fund to the Experience Account are automatic; COLA grants are not. Legislative approval is required before any COLA can be granted.

Based on the results of the most recent actuarial valuation of the Louisiana State Police Retirement System (LSPRS), which was prepared by the system’s actuary as of June 30, 2017, the criteria for granting a COLA have been satisfied, and approval is being sought from the legislature to proceed.

Proposed Law

SB 2 provides a one-time COLA of 1.6% to be granted by the system effective July 1, 2018 to qualifying retirees and beneficiaries, pursuant to current law.

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Implications of the Proposed Changes

Under SB 2, a 1.6% COLA will be granted to qualified retirees and beneficiaries effective July 1, 2018. Based on calculations by the system's actuary, the balance in the Experience Account on June 30, 2017 was \$5,260,562. If SB 2 is enacted, \$5,163,742 will be transferred from the Experience Account to the Core Fund. Only \$96,820 will be left in the Experience Account. The actuarial liability of the Core Fund associated with the COLA grant will increase \$5,163,742.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Actuarial Costs
(Prepared by the LLA)**

This section of the actuarial note pertains to actuarial costs or savings associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

LSPRS has a Core Fund which is the funding vehicle for all benefits payable from the retirement system. LSPRS also has a side fund called the Experience Account. The Experience Account is the funding vehicle for COLAs. The Core Fund is financed through investment earnings and employer and employee contributions. The Experience Account is financed with "excess" investment earnings (investment gains) that occur whenever the actual rate of investment earnings exceeds 7.00%, the assumed rate. It is important to note that there is no such thing as "excess" investment earnings. All investment gains are needed to offset investment losses. If "excess" investment earnings are used for another purpose, the Core Fund incurs an asset shortfall that must be recovered from other sources.

Current and proposed laws provide that a portion of "excess" investment earnings will be deposited into the Experience Account until a prescribed limit is reached. The Core Fund, however, experiences an investment loss whenever a portion of "excess" earnings is diverted to the Experience Account. The Core Fund has not received the earnings it should have received in accordance with the assumed rate of return. To recover this loss, a 30-year amortization charge base is established to recover the assets the Core Fund has failed to receive. In other words, employer contribution requirements for the next 30 years will increase every time an amount is deposited into the Experience Account.

Whenever the legislature and the board of trustees approve a COLA, the liability associated with the Core Fund increases and assets are transferred from the Experience Account to match the liability increase. The unfunded accrued liability of the Core Fund does not change.

To summarize:

1. The balance in the Experience Account was \$0 on June 30, 2012. Since then, "excess" investment returns have been deposited into the account.
2. The balance in the Core Fund is less than it would have been had the Experience Account never been created. The Core Fund balance should be the actual Core Fund balance plus the amount in the Experience Account.
3. Each time an amount was allocated to the Experience Account a 30-year amortization base was established relative to the Core Fund and employer contributions increased.
4. On June 30, 2017, the balance in the Experience Account was \$5,260,562 and the Core Fund had \$5,260,562 less in assets than it should have.
5. Thirty-year amortization of the Core Fund shortfall will require annual payments of \$396,196 a year.
6. Items 1 through 5 above have already been established and will not be affected by SB 2.

However, SB 2 does have an effect on LSPRS' financial arrangements. If the 1.6% COLA is granted:

1. The funded ratio of the system will decrease.
2. The balance in the Experience Account will decrease by \$5,163,742.
3. Assets of the Core Fund will increase \$5,163,742.
4. Core Fund liabilities will increase \$5,163,742.
5. The Core Fund UAL will not change.
6. The employer normal cost will not change; amortization costs will not change, and the total employer contribution requirement will not change.
7. The limit on assets that may be held in the Experience Account will not change.
8. The amount of future gains that may be deposited into the Experience Account will increase by \$5,163,742. It is certain that future gains will occur; it is just the timing that is uncertain.

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If you assess the entire financial arrangement as a single entity (which it is because assets are under a single trust):

1. Core Fund assets plus Experience Account Assets will not change.
2. Core Fund liabilities plus Experience Account liabilities will increase \$5,163,742.
3. Employers began to pay for these benefits when investment gains were taken from the Core Fund and deposited into the Experience Account.
4. The unfunded accrued liability of the Core Fund plus the Experience Account will increase \$5,163,742.
5. By approving SB 2, the legislature is spending \$5,163,742 for COLAs that the state could use for other purposes such as to reduce future employer contribution requirements.

In conclusion, SB 2 has an actuarial cost equal to \$5,163,742. A funding mechanism has already been established to recover this cost. The COLA benefits provided under SB 2 will not affect the state budget for FYE 2019. Recovery of the actuarial cost has already been built into the employer rate that will be charged for FYE 2019.

However, enactment of SB 2 will have an effect on future employer contribution requirements whenever investment gains occur and future deposits are made to the Experience Account. Budgets for FYE 2020, FYE 2021, FYE 2022 and future years are likely to be affected as a direct result of SB 2.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of SB 2 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by adding a COLA to specified retirement benefits.

3. Other Government Entities

The actuarial cost or savings of SB 2 associated with government entities other than LSPRS and its sponsor are estimated to be \$0.

**B. Actuarial Data, Methods and Assumptions
(Prepared by the LLA)**

Unless indicated otherwise, the actuarial note for SB 2 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by PRSAC. The 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.

**C. Actuarial Caveat
(Prepared by the LLA)**

There is nothing in SB 2 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

Tables A, B, C, and D have been prepared by the LLA. These tables include information developed by the LLA from its own sources as well as information supplied by Tanesha Morgan of the Legislative Fiscal Office (LFO). Table D includes all costs and savings pertaining to Louisiana government.

The LFO has requested that the information supplied by Tanesha Morgan be included in the actuarial note verbatim and without any changes. This information is shown below under Fiscal Costs Received by the LLA from the LFO. The reader should note that complete fiscal cost information is contained within Table D. Fiscal costs developed by the LFO only reflect the portion of Table D that was supplied by the LFO.

Table A pertains to fiscal costs or savings associated with the retirement systems; Table B pertains to OPEB; Table C pertains to fiscal costs associated with government entities other than the retirement systems and sponsors. Table D is the cumulative sum of Tables A, B, and C.

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**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by the LLA)**

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. Fiscal costs and savings include both administrative and actuarial costs and savings. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	548,356	548,356	548,356	548,356	548,356	2,741,780
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	\$ 548,356	Increase	Increase	Increase	Increase	Increase

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

SB 2 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period. Additional information is provided in the Actuarial Analysis Section.

2. Expenditures:

- a. General Fund expenditures will increase two years after the next time a qualifying investment gain occurs. It is somewhat likely that such a gain will occur for FYE 2018. If so, employer contribution requirements will increase for FYE 2020 and amounts necessary to be factored into the state’s budget for FYE 2020 will increase accordingly.
- b. Expenditures from LSPRS (Agy Self-Generated) will increase because benefits will be permanently increased by the grant of the 1.6% COLA. The expenditure increase will begin July 1, 2018. The actuary for the LSPRS estimated that annual benefit payments will increase \$548,356 per year as a result of SB 2. Although Table A shows a constant amount from the 2018-19 fiscal year through the 2022-23 year, payment amounts will be at their largest amount for FYE 2019 with payments decreasing each year thereafter.

3. Revenues:

- a. LSPRS will incur an increase in annual revenues beginning in FYE 2020 because employer contribution requirements are likely to increase.

**B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA)**

1. Narrative

Table B shows the estimated fiscal impact of SB 2 on actuarial costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

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OPEB Fiscal Cost: Table B

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

SB 2 will have no effect on OPEB related fiscal costs and revenues during the five-year measurement period.

**C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by the LLA using information supplied by the LFO)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact (administrative and actuarial) of SB 2 on such government entities. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

SB 2 will have the following effects on fiscal costs and revenues related to government entities other than LSPRS and its sponsors during the five year measurement period.

2. Expenditures:

a. There is no anticipated material effect on expenditures for governmental entities other than the retirement systems and their sponsors.

3. Revenues:

a. There is no anticipated material effect on revenues for governmental entities other than the retirement systems and their sponsors.

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**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities
(Prepared by the LLA)**

1. Narrative

Table D shows the estimated fiscal impact of SB 2 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	548,356	548,356	548,356	548,356	548,356	2,741,780
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	\$ 548,356	Increase	Increase	Increase	Increase	Increase

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

Fiscal Costs Received by the LLA from the LFO

1. Narrative

Present law provides for cost-of-living adjustments (COLA) for retirees, survivors, and beneficiaries of the Louisiana State Police Retirement System under certain conditions. Proposed law retains present law and approves a COLA to be paid July 1, 2018, pursuant to the provisions of present law.

Fiscal Costs for Other Government Entities

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

SB 2 will have the following effects on fiscal costs and revenues related to government entities other than LSPRS and its sponsors during the five year measurement period.

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

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3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Credentials of the Signatory Staff:

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.

John D. Carpenter, Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses contained herein.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

SB 2 contains a retirement system benefit provision having an actuarial cost.

Some members of the system will receive a larger retirement benefit if SB 2 is enacted than they will receive without SB 2.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2018 regular session.

Senate

House

13.5.1 Applies to Senate or House Instruments.
If an annual fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Senate Finance

6.8F Applies to Senate or House Instruments.
If an annual General Fund fiscal cost \geq \$100,000, then the bill is dual referred to:
Dual Referral to Appropriations

13.5.2 Applies to Senate or House Instruments.
If an annual tax or fee change \geq \$500,000, then the bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

6.8G Applies to Senate Instruments only.
If a net fee decrease occurs or if an increase in annual fees and taxes \geq \$500,000, then the bill is dual referred to:
Dual Referral: Ways and Means