2018 REGULAR SESSION
ACTUARIAL NOTE HB 696

House Bill 696 HLS 18RS-435
Engrossed with House Retirement Committee Amendment #2844

Author: Representative Pearson
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LLA Note HB 696.02

Organizations Affected:
Teachers' Retirement System of Louisiana

EG INCREASE APV

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.

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Bill Header: RETIREMENT/TEACHERS: Provides relative to reemployment of retirees of the Teachers' Retirement System of Louisiana

Cost Summary:

The estimated actuarial and fiscal impact of HB 696 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:		**Actuarial Cost**
The Retirement Systems		Increase
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Current law suspends the benefits of a reemployed retired member of the Teachers' Retirement System of Louisiana (TRSL) unless he is reemployed in a Reemployment-Eligible Position which is defined as:

1. A position as a substitute classroom teacher who teaches any student in pre-kindergarten through twelfth grade;

2. A position assigned to instructing adults through an adult educational or literacy program administered through a public institution of elementary or secondary education, provided the instructor has a valid Louisiana teaching certificate;

3. A position as an adjunct professor; and

4. A position for a school nurse.

Benefits payable to a retiree reemployed in a Reemployment-Eligible Position are subject to the following suspension of benefit rules.

1. If a retiree is reemployed in a Reemployment-Eligible Position before the first anniversary of his original date of retirement, the retiree's benefit will be suspended until the earlier of the date he terminates reemployment and the first anniversary date of his original retirement. The retiree's income from employment is unlimited.

2. If the retiree continues to be employed thereafter in a Reemployment-Eligible Position, the retiree may continue to work in the Reemployment-Eligible Position and earn an unlimited income from employment. However, his pension benefit will be

reduced one dollar for each dollar he earns from employment that exceeds 25% of his pre-reemployment pension benefit. Once his pension benefit has been reduced to 25% of his pre-reemployment benefit no further benefit reduction will occur.

Proposed Law

HB 696 adds the position of tutor for any student in pre-kindergarten through twelfth grade to the list of Reemployment-Eligible Positions.

Implications of the Proposed Changes

HB 696 permits a tutor to return to work and earn an income from reemployment that is unlimited. However, his pension benefit will be reduced one dollar for each dollar that he earns in excess of 25% of his pre-reemployment pension.

Both he and his employer will be required to make contributions during the reemployment period. The member's contributions will be returned when he leaves reemployment; however the employer contributions will remain in the fund.

Pension benefits for the reemployed retiree will not be increased to reflect the additional service. The additional employer contributions are expected to offset the costs of paying 25% of the pension benefits to the reemployed retiree.

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

The actuarial cost of HB 696 associated with the retirement system is estimated to be $0. Our analysis is summarized below.

Example 1: Full Time Tutor

a. Assumptions

1). A teacher has been retired for more than one year.

2). He is reemployed on a full time basis as a tutor earning $48,000 a year.

3). His annual pension benefit is $30,000 a year.

b. *Benefits Payable by TRSL under Current Law*

HB 696 is not enacted. The tutor is reemployed for a year and earns a salary of $48,000. His pension from TRSL is suspended. He receives no pension from TRSL for as long as he is reemployed.

Because he is a retired member, but is not in one of the Reemployment-Eligible Positions under current law, neither the reemployed tutor nor his employer will make contributions to the system, and the reemployed tutor will not accrue additional retirement benefits.

c. *Benefits Payable by TRSL under HB 696*

HB 696 is enacted. The tutor is reemployed as a "retired teacher" for a year and earns a salary of $48,000. TRSL will pay the tutor $7,500 in pension benefits for the year. The remaining $22,500 of his $30,000 annual pension will be suspended. He will receive $7,500 a year from TRSL for as long as he is reemployed.

Because he is considered to be a "retired teacher" under HB 696, both the reemployed tutor and his employer will make contributions to the system. Employer contribution rates for TRSL are expected to be 26.5% of pay. The employer contribution based on a salary of $48,000 would be $12,720.

The reemployed tutor will not accrue additional retirement benefits and, upon subsequent termination of employment, will receive a refund of his contributions without interest.

d. *Conclusion*

In Example 1, the tutor is reemployed full time for a full year. With the enactment of HB 696, TRSL's pension expenditure will increase $7,500 for the year, and the system will collect $12,720 more in contributions from the employer over the same period. The contribution exceeds the TRSL expenditure.

If the reemployed tutor stays only a few months, employer contributions will be less than pension expenditures. However, it is reasonable to assume that, overall, additional employer contributions will cover additional pension expenditures.

Example 2: Part Time Tutor

a. Assumptions

It is unlikely for a tutor to be reemployed on a full-time basis. With few exceptions, tutors are employed on a part-time basis.

1. A teacher has been retired for more than one year.
2. His annual pension benefit is $30,000 a year.
3. If the teacher is reemployed as a tutor for 1,213.33 hours on a part-time basis, his annual income from reemployment will be $28,000.

b. *Benefits Payable by TRSL under Current Law*

HB 696 is not enacted. The retired teacher's benefit is suspended immediately upon reemployment.

It is unlikely that such a retiree will agree to be reemployed because he would receive $28,000 of reemployment income and lose his $30,000 pension benefit. By becoming reemployed, his total annual income is reduced $2,000.

The retiree would have to be reemployed for more than 1,560 hours and earn more than $30,000 in order for his total income to increase. Even if he is reemployed for 2080 hours and earns $48,000, his total income will still be $48,000: an $18,000 net increase in the $30,000 a year he was receiving as a retiree.

c. *Benefits Payable by TRSL under HB 696*

HB 696 is enacted. The tutor is reemployed as a "retired teacher". If he is reemployed, his pension benefit is reduced dollar for dollar for reemployment earnings that exceed 25% of his pension benefit, or $7,500. In other words, as a tutor, he may receive $7,500 of reemployment income. His pension benefit would then be suspended until the next fiscal year.

It is not likely that such a retiree will be reemployed other than as a tutor earning less than $7,500 a year. Earnings of any amount in excess of $7,500 will not benefit the retiree-tutor financially.

Because he is considered to be a "retired teacher" under HB 696, both the reemployed tutor and his employer will make contributions to the system. Employer contribution rates for TRSL are expected to be 26.5% of pay. The employer contribution based on a salary of $7,500 would be $1,988.

The reemployed tutor will not accrue additional retirement benefits and, upon subsequent termination of employment, will receive a refund of his contributions without interest.

d. *Conclusion*

In this example, a tutor will only work until he has earned $7,500. TRSL's pension expenditure will be the full $30,000 for the year, and the system will collect $1,988 more in contributions from the employer over the same period. There is no change in the amount payable by TRSL ($30,000), however, there is a $1,988 increase in employer contributions to TRSL.

The only other scenario to be considered is to determine the effect on HB 696 on someone who is already reemployed as a tutor when the enactment of HB 696 occurs. This will be highly unlikely, but nevertheless is potentially possible. TRSL is paying $0 to such a retiree under current law. Under HB 696, TRSL will pay the retiree an amount between $0 and $7,500 depending on how the extent of the retirees reemployment as a tutor.

To summarize:

a. The actuarial present value of future benefit payments will increase if HB 696 is enacted.

b. The actuarial present value of future employer contributions will increase if HB 696 is enacted.

c. The net gain or loss (Expenditures minus Revenues) is likely to increase but only by a negligible to small amount.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 696 associated with OPEB, including retiree health insurance premiums, is expected to be $0. Our analysis is summarized below.

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.

When a retired TRSL member returns to active employment with coverage for health insurance, he is no longer receiving other post-employment benefits. Therefore, the OPEB costs and liabilities are decreased to reflect the time he will be expected to remain employed until subsequent retirement the second time. However, the post-employment benefit decrease is approximately offset by a comparable increase in benefits payable during a retiree's reemployment.

The liability for medical insurance protection provided to members by local school districts remains approximately the same regardless of whether a TRSL retiree is reemployed or remains in retired status. The liability is based on the present value of estimated claims and the estimated claims will not change just because the member's status has changed from retiree to employee.

3. **Other Government Entities**

The actuarial cost or savings of HB 696 associated with government entities other than TRSL and its sponsors is expected to be $0.

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

Unless indicated otherwise, the actuarial note for HB 696 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 HB 696 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings associated with government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings in Table A include administrative costs associated with the retirement systems and the sponsoring government entities. The total effect of HB 696 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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	$ 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	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

The effects on retirement related fiscal costs or savings during the five-year measurement period are shown in Table A and Items 2 and 3 below.

1. Expenditures:

a. TRSL expenditures (Agy Self-Generated) will increase under HB 696 because TRSL will distribute more in benefits each year under HB 696 than it will under current law.

b. Expenditures from Local Funds will increase under HB 696 because school districts will contribute more per year, on average, to TRSL with the enactment of HB 696 than it would have contributed under current law.

c. There may be implementation costs to make minor software modifications to existing computer programs and to update educational and training publications. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

2. Revenues:

a. TRSL revenues (Agy Self-Generated) will increase each year if HB 696 is enacted because school districts will contribute more per year to TRSL under HB 696 than it will under current law.

B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA using information supplied by the LFO)

1. Narrative

Table B shows the estimated fiscal impact of HB 696 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.

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

HB 696 will have no effect on OPEB related fiscal costs and revenues during the five-year measurement period.

Depending on the respective rules, the allocation of premiums between the employee and the employer may change slightly (but not materially) as an employee moves from a retired status to an active reemployed status. Therefore:

2. Expenditures

Employer premium expenditures may increase slightly or decrease slightly as a result of HB 696, with no material effect.

3. Revenues

Local school district revenues are not affected by HB 696.

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 HB 696 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

HB 696 will have the following effects on fiscal costs and revenues related to government entities other than TRSL and it sponsors during the five-year measurement period.

2. Expenditures:

There is no anticipated direct material effect on TRSL expenditures and its sponsors as a result of this measure.

3. Revenues:

There is no anticipated direct material effect on TRSL revenues and it sponsors as a result of this measure.

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by the LLA)

1. Narrative

Table D shows the estimated fiscal impact of HB 696 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	$ 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	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

<u>Fiscal Costs Received by the LLA from the LFO</u>

1. Narrative

<u>Present law</u> provides a definition of “reemployment-eligible position” to include substitute classroom teacher, adult education instructor, adjunct professor, and school nurse. <u>Proposed law</u> adds Tutor to the list.

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	See below	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

HB 696 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. However, there may be implementation costs to make minor software modifications to existing computer programs and to update educational and training publications. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

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

[X] HB 696 contains a retirement system benefit provision having an actuarial cost.

Some individual members of TRSL will receive a larger retirement benefit if HB 696 is enacted than they will receive without HB 696.

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

[x] 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Senate Finance

[ ] 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

[ ] 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:
Dual Referral to Appropriations

[ ] 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:
Dual Referral: Ways and Means