2020 REGULAR SESSION
ACTUARIAL NOTE HB 8

House Bill 8 HLS 20RS-18
Original

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LLA Note HB 8.01

Organizations Affected:
Teachers' Retirement System of Louisiana

OR INCREASE APV

This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.

Lowell P. Good

Lowell P. Good, ASA, EA, MAAA
Actuarial Services Manager

James J. Rizzo

James J. Rizzo, ASA, EA, MAAA
Senior Consultant & Actuary
Gabriel, Roeder, Smith & Company

Bill Header: RETIREMENT/TEACHERS: Provides relative to the rehire of retired teachers in the Teachers' Retirement System of Louisiana as substitute classroom teachers.

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. Net 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 local and state 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 ***net 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 (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		Decrease
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post-employment Benefits (OPEB)	Decrease	0
Local Government Entities	Increase	0
State Government Entities	0	0
Total	Increase	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

Current Law

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

1. If a retired teacher is reemployed in a *Reemployment-eligible Position* before the first anniversary of his date of retirement, the retiree's benefit will be suspended until the date he terminates reemployment or the first anniversary date of his retirement, whichever occurs first. The retiree's income from employment is unlimited.
2. If a retiree is reemployed in a *Reemployment-eligible Position* beyond the first anniversary of his date of retirement, he 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 pension benefit.

In addition, current law defines "substitute classroom teacher" as any classroom teacher employed in a temporary capacity to fill the position of another classroom teacher who is unavailable to teach for any reason.

Proposed Law

HB 8 provides that a retiree who is rehired as a substitute classroom teacher by the school board in a parish with a population of ten thousand or less according to the latest federal decennial census will not have his pension benefits suspended during the 12-month period immediately following retirement.

HB 8 also reclassifies such a retiree as a *Reemployment-eligible Retiree* and allows him to continue to receive his full benefit without the 25% cap for as long as he remains in such a position.

Implications of the Proposed Changes

HB 8 will allow a retired teacher who is hired as a substitute classroom teacher by a school board in a parish with a population of ten thousand or less (according to the latest federal decennial census) to return to work within the 12-month period immediately following his retirement without having his benefits suspended during the first year, or reduced when his earnings exceed 25% of his pension benefit.

There are currently four parishes with populations of ten thousand or less according to the latest federal decennial census.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be an increase in cost. Our analysis is summarized below:

Example

1. A teacher has just retired.
2. His annual pension benefit is $30,000 a year.
3. His salary as a substitute classroom teacher is $48,000 a year.

Under Current Law

The teacher is reemployed as a substitute classroom teacher by a school board in a parish with a population of ten thousand or less (according to the latest federal decennial census) and earns a salary of $48,000. TRSL will suspend the substitute classroom teacher's pension benefits for the first year and then pay the substitute classroom teacher $7,500 in pension benefits thereafter. The remaining $22,500 of his $30,000 annual pension after the first year will be suspended. He will receive $0 from TRSL for the first year and $7,500 a year from TRSL for as long as he is reemployed thereafter.

Under HB 8

Assuming the teacher is reemployed as a substitute classroom teacher by a school board in a parish with a population of ten thousand or less (according to the latest federal decennial census) and earns a salary of $48,000, if HB 8 is enacted TRSL will continue to pay the substitute classroom teacher $30,000 in pension benefits without regard to reemployment as a substitute teacher.

Conclusion

In this example, the substitute classroom teacher is reemployed. TRSL's pension expenditure will increase by $30,000 for the first year and will increase by $22,500 for every relevant year thereafter.

2. Other Post-employment Benefits (OPEB)

The actuarial costs of HB 8 associated with the state OPEB, including retiree health insurance premiums, are expected to decrease slightly. Our analysis is summarized below.

The four parish school boards affected by the proposed legislation are all covered by the Office of Group Benefits (OGB) for their employees' and retirees' insurance benefits.

The total claims liability for post-retirement medical insurance subsidies provided to members by the OGB covering the affected teachers remains approximately the same regardless of whether a TRSL retiree is reemployed into active status or remains in retired status. The total 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.

When a retired TRSL member returns to active employment with coverage for health insurance, he is no longer receiving retiree health subsidies, but is covered as an active employee again. Therefore, the OPEB costs and liabilities are decreased to reflect the time he will be expected to remain employed until his subsequent second retirement. This has a decreasing effect on the OPEB costs and liabilities. Many such retirees may not work enough hours to be re-classified as active employees again. For these employees, there would be no impact of HB 8 on the OPEB liability.

However, the portion of the expected claims or premiums paid by the employer on behalf of a retiree is eliminated, in exchange for the employer-share borne by the employer on behalf of the substitute teacher as an active employee for those who work enough hours to be covered as such. There is no difference between the employer share for retirees with a full career of service as compared to an active employee. But for shorter service retirees, the employer subsidy for an active employee is larger than for a retiree, resulting in an increase in current costs to the employer. Most of OGB retirees are long service retirees receiving the full subsidy. Furthermore, it is not known whether these affected parishes provide greater or lesser subsidies toward the payment of such claims or premiums to retirees as compared to active employees.

On balance, HB 8 is expected to have a slight decreasing effect on OPEB costs and liabilities. The increase in net actuarial costs for the retirement benefits is larger than the decrease in OPEB costs, resulting in an overall net increase.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

C. Actuarial Caveat
(Prepared by LLA)

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

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by 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. 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	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

a. TRSL expenditures (Agy Self Generated) will increase under HB 8 because TRSL will distribute more in benefits each year under HB 8 than it will under current law.

b. TRSL may incur administrative costs to make minor software modifications to existing computer programs to identify members that are rehired under this measure. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

c. Expenditures from Local Funds will increase under HB 8 because school districts will contribute more per year, on average, to TRSL with the enactment of HB 8 than would have been contributed under current law.

3. Revenues:

TRSL revenues (Agy Self Generated) will increase each year if HB 8 is enacted because school districts and reemployed retirees will contribute more per year to TRSL under HB 8 than they would have contributed under current law.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. 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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

To the extent that TRSL retirees return to work as substitute teachers in these affected parishes, the retiree medical subsidies would be eliminated, having a decreasing effect on OPEB.

3. Revenues:

No measurable effects.

III. <u>FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]</u>

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

<u>Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)</u>
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

The proposed legislation will have the following effects on fiscal costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

IV. <u>FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]</u>

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

<u>Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)</u>
(Prepared by John Carpenter, Legislative Fiscal Officer)

1. Narrative

Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

The proposed legislation will have the following effects on fiscal costs and revenues related to state 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.

3. Revenues:

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

Credentials of the Signatory Staff:

Lowell P. Good is the Actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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<u>Information Pertaining to Article (10)(29(F) of the Louisiana Constitution</u>

[X] HB 8 contains a retirement system benefit provision having an actuarial cost.

Some members of the Teachers' Retirement System of Louisiana could receive a larger benefit with the enactment of HB 8 than what they would have received without HB 8.

<u>Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:</u>

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 regular session.

<u>Senate</u>

[ ] 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

<u>House</u>

[ ] 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