2020 SECOND EXTRAORDINARY SESSION
ACTUARIAL NOTE SB 26

Senate Bill 26 SLS 202ES-81
Original

Author: Senator Peterson
Date: October 2, 2020
LLA Note SB 26.01

Organizations Affected:
Louisiana State Employees' Retirement System

OR DECREASE 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.

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<u>Bill Header:</u> LOCAL EMPLOYEES. Removes employees of the Regional Transit Authority from the state system and state civil service. (gov sig) (Item #62)

<u>Cost Summary:</u>

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.

<u>Estimated Actuarial Impact:</u>

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

<u>Bill Information</u>

Current Law

Current law provides that the employees in the management class of the Regional Transit Authority (RTA) are not eligible to participate in the Louisiana State Employees' Retirement System (LASERS). Except for that exclusion, all permanent, full time employees of the RTA, other than the commissioners, the secretary, the treasurer, the general counsel, the general manager and his assistant, are classified employees in the state civil service system and are therefore eligible to participate in LASERS.

Current law also provides that the portion of LASERS' unfunded accrued liability (UAL) existing on June 30, 2019 attributable to RTA as determined by the actuary employed by LASERS shall be amortized and paid by RTA to LASERS over ten years. The amount is to be paid in equal monthly payments, in the same manner as regular payroll payments to the retirement system.

Proposed Law

SB 26 provides that no employee of the RTA is eligible to participate in LASERS.

In addition, it provides that the portion of LASERS' unfunded accrued liability (UAL) existing on June 30, 2021 attributable to RTA will be determined by the actuary employed by LASERS and shall be amortized and paid by RTA to LASERS over ten years. The amount will be paid in equal monthly payments, in the same manner as regular payroll payments to the retirement system.

Implications of the Proposed Changes

SB 26 will prevent any employees of RTA from participating in LASERS, including any current employee(s) currently covered under LASERS.

In addition, SB 26 specifies that the actuary employed by LASERS will determine the portion of the UAL existing on June 30, 2021 and attributable to RTA, and requires that such amount be paid by RTA to LASERS in equal monthly payments over ten years. This portion of the UAL and its amortization appears to be in addition to the one established under the Current Law, as described above. This could be interpreted as duplicative UAL portions and amortizations. Alternatively, this could be interpreted as a new supplemental UAL portion to offset the portion of the UAL attributable to RTA as of June 30, 2019, rather than re-amortizing the full amount over a new 10-year period. It is unclear exactly how the new UAL and amortization language relates to the current UAL and amortization language.

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 a decrease in cost. The actuary's analysis is summarized below.

LASERS' staff has indicated that, currently, there is only one employee qualifying as a permanent employee of RTA in the state civil service system. This employee is a member of LASERS. In addition, there is one former RTA employee who has benefit rights. Some other current employees of RTA are classified as "management class" or "class of position" and, thereby, not included in LASERS pursuant to current law. All other employees who currently provide regional transit services to RTA are employees of a contractor, not employees of RTA, and are not members of LASERS. RTA staff has indicated these other employees will be brought in-house later this calendar year (December 2020) to become employees of RTA.

The proposed legislation will remove this one remaining LASERS-covered RTA employee from LASERS and will prevent all other current or future RTA employees from participating in LASERS. The one remaining LASERS-covered current RTA employee will stop his or her active membership in LASERS. Benefits and payments timing will be based on the current plan provisions as they apply to members who leave active membership. The net actuarial present value of future benefit payments and expenses will decrease since this one remaining LASERS-covered employee will not accrue any additional benefits and no other RTA employees will accrue benefits in LASERS.

It is unclear how the two UAL portions and their amortizations relate to each other.

If the proposed legislation is implemented, all newly in-sourced employees would not be covered under LASERS. Under the proposed legislation excluding them from LASERS, RTA staff has indicated that these employees will be covered under its own defined contribution plan.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be $0. The actuary's analysis is summarized below.

The actuarial cost of SB 26 associated with OPEB, including retiree health insurance subsidies, is being treated as no cost for the purpose of this Actuarial Note. Post-employment benefit programs for the employees of RTA depend on the provision for such benefits within the Authority, not on their participation in LASERS. Any OPEB program sponsored by the Authority would have its own eligibility conditions. While SB 26 affects the employees' eligibility conditions for commencing retirement benefits under LASERS, it does not affect the Authority's eligibility conditions for commencing OPEB benefits. Any change in OPEB benefit eligibility would be the decision and action of RTA. Therefore, the actuarial cost of the proposed bill relative to post-employment benefits is considered $0.

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	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

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	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

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

2. Expenditures:

a. Expenditures by LASERS (Agy Self Generated) may decrease slightly over the next five years due to not having to pay refunds of contribution to any new employees who may have been hired in the absence of the proposed bill. Fewer employees are expected to participate in LASERS and accrue benefits. Therefore, benefit payments for LASERS will likely be lower than currently expected.

b. Expenditures for the State General Fund, Stat Deds/Other and Federal Funds sources of funding are not affected by the proposed legislation because RTA is not treated as a state agency.

c. RTA (Local Funds) retirement contribution expenditures are expected to decrease over the next five years (and longer) as a result of the proposed legislation, *primarily* due to the reduction on retirement contribution expenditures for its new hires. In the absence of the proposed legislation, the retirement contribution expenditures by RTA for in-sourcing currently subcontracted employees would be made to LASERS. The proposed legislation would exclude them from being eligible for LASERS, and RTA staff has indicated that future retirement contributions for in-sourced employees made to its own defined contribution plan would be significantly less.

The second factor to consider in assessing the effect of the proposed legislation on RTA's retirement contribution expenditure is more complex but less significant. This second factor relates to the legacy amortization contribution to LASERS required by Act 264 from the 2019 Legislative Session and the new amortization contribution to LASERS required by this proposed legislation. It is unclear how the proposed legislation intends these two amortization schedules relate to each other. The proposed legislation provides for the determination by LASERS' actuary of the portion of the total UAL as of June 30, 2021 attributable to RTA's employees participation in LASERS, and provides for the payoff by RTA of that RTA-specific UAL as a flat dollar amount over 10 years. It is unclear whether this second amortization schedule is intended to be duplicative, additional or offset in relation to the first amortization schedule set forth in Act 264.

The 10-year amortization of the two RTA-specific UALs would not be equal to the amortization payment embedded in RTA's contribution rate under the current law or current practice.

The effect of this proposed legislation on the amortization schedule (and therefore the next five years of contribution expenditures of Local Funds) is further complicated by the lack of an RTA-specific UAL portion (first amortization base) and amortization payment recognized in the June 30, 2019 actuarial valuation. The contribution rates for RTA and all other participating employers were developed in the June 30, 2019 valuation for the 2020-2021 contribution year without regard to the effects of R.S. 48:1655(N)(2)(b) enacted by Act 264 which set forth a procedure for establishing the first UAL portion and amortization. It may have been entirely appropriate not to establish the RTA-specific UAL portion and amortization set forth in R.S. 48:1655(N)(2)(b) due to materiality or otherwise.

Regardless of the method employed by LASERS' actuary for complying with the statutory language for the two amortization schedules, the retirement contribution expenditures for all Local Funds as a whole would be expected to have a decrease, primarily due to the reduction of retirement contributions applicable under the proposed legislation for newly in-sourced RTA employees.

3. Revenues:

LASERS' (Agy Self-Generated) revenues from all participating entities would be expected to decrease during the 5-year period for the reason cited above.

B. Estimated Fiscal Impact – OPEB
(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	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 OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

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.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(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. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

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.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by Christopher Keaton, 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:

   Other than the impact on employer contribution rates which is already reflected in Table A above, 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. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

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

☐ SB 26 contains a retirement system benefit provision having an actuarial cost.

No member of LASERS will receive a larger benefit with the enactment of SB 26 than what he would have received without SB 26.

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

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

Senate

☐ 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