2021 REGULAR SESSION
ACTUARIAL NOTE SB 22

<table>
<tr><td rowspan="2">Senate Bill 22 SLS 21RS-94
Engrossed

Author: Senator Peacock
Date: April 19, 2021
LLA Note SB 22.02

Organizations Affected:
Three State Retirement Systems:
LASERS, TRSL, and LSERS

EG DECREASE APV</td><td colspan="2">This Note has been prepared by the Actuary for 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.</td></tr>
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<u>Bill Header:</u> RETIREMENT BENEFITS. Provides relative to retirement eligibility for certain members of state retirement systems and for disability retirement. (6/30/21)

<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 Present Values pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***[1]. 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 Present Values Pertaining to:		**Net Actuarial Present Values**
The Retirement Systems		Decrease
Other Post-employment Benefits (OPEB)		Decrease
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems - Agy Self Generated	Increase	Decrease
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Decrease	0
State Government Entities	Decrease	0
Total	Decrease	Decrease

<u>Bill Information</u>

Current Law

Current law relative to the Louisiana State Employees' Retirement System (LASERS) rank-and-file members, the Teachers' Retirement System of Louisiana (TRSL) members, and the Louisiana School Employees' Retirement System (LSERS) members provides the following retirement eligibilities for those whose first employment making them eligible for membership in any state retirement system occurred on or after July 1, 2015:

- Retirement at age 62 after five years of service.
- Retirement at any age after 20 years of service; however, the member's benefit will be actuarially reduced from age 62.

Current law also has other provisions that tie into retirement eligibility for these members:

1. Members who leave with vested benefits before retirement age are eligible to start benefits at age 62.

2. Disability benefits
   a. Members who are receiving disability benefits are required to have a physician certify their continued total disability periodically, until they attain age 62.

[1] **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note "<u>Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution</u>").

   b. Disability benefit approvals are not available to members once they reach the normal retirement age (age 62 with five years of service),

3. Members may enter the DROP when they reach age 62 after five years of service.

Proposed Law

SB 22 does not affect current plan members, but affects future members of the LASERS rank-and-file group, TRSL, and LSERS whose first employment makes them eligible for membership in any of the state systems on or after July 1, 2021. Under SB 22 such future members would be eligible for retirement at (presumably the earlier of):

- Age 67 or the age of retirement set by the Social Security Administration, whichever is greater, after five years of service.
- Age 62 or later, with 40 years of service.
- Any age after 20 years of service credit: however, the member's benefit will be actuarially reduced from age 67 or the age of retirement set by the Social Security Administration, whichever is greater.

For such members, SB 22 provides that the "age of retirement set by the Social Security Administration" means the greater of age 67 or the highest normal retirement age in whole years required for eligibility to receive unreduced retirement benefits from the Social Security Administration on January 2nd of the applicable calendar year as follows:

- For a person whose first employment date is between January 1st and June 30th, inclusive, the January 2nd of the year immediately preceding the year he is first employed.
- For a person whose first employment date is between July 1st and December 31st, inclusive, the January 2nd of the year he is first employed.

The other provisions that tie into retirement eligibility for members of these systems would be changed to:

1. Members who leave with vested benefits before retirement age are eligible to start receiving benefits at age 67 or the age of retirement set by the Social Security Administration, whichever is greater.

2. Disability benefits
   a. Disability benefit approvals are not available to members once they reach age 67 or the age of retirement set by the Social Security Administration, whichever is greater, rather than age 62.
   b. Members who are receiving disability benefits are required to have a physician certify their continued total disability periodically, until they attain age 67 or the age of retirement set by the Social Security Administration, whichever is greater.

3. Members may enter the DROP when they reach age 67 or the age of retirement set by the Social Security Administration, whichever is greater, provided they have at least five years of service.

Implications of the Proposed Changes

SB 22 does not change benefit formulas in these systems, but it does change retirement eligibility for most new employees, requiring them to wait longer before being eligible for unreduced normal retirement. Changing retirement dates will alter the amount of retirement benefits payable and the length of time benefits will be received.

The primary effect of SB 22 is that affected new members must work longer before becoming eligible to retire with full unreduced benefits, and affected new members who retire early with actuarially reduced benefits will have a greater actuarial reduction in their benefit.

Other SB 22 implications for provisions that tie to retirement eligibility include:

1. The date when vested deferred benefits commence is delayed under SB 22.

2. The window of time when qualifying disabilities would occur is extended to a later age.

3. The date when members may enter DROP is delayed to coincide with the new later retirement age.

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 present value 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.

SB 22 does not change the amount or timing of benefit payments for the current members of LASERS rank-and-file, TRSL, and LSERS. However, the cost of benefits for future members of these systems would decrease. Increasing the retirement age, as SB 22 does, is expected to decrease the cost of the three systems significantly.

Other cost implications are affected by the following provisions that also tie to retirement eligibility. The effect of SB 22 on cost of these other provisions may be an increase or a decrease. Any provisions with an increasing effect are not expected to offset the primary impact of SB 22 significantly decreasing the actuarial costs.

1. An increase in the number of vested terminated members.
   a. Affected members who terminate with vested benefits prior to age 62 must wait longer under SB 22 to start receiving their monthly benefits.
   b. Affected members who terminate with vested benefits between age 62 and either age 67 or the age of retirement set by the Social Security Administration, if greater, would no longer be eligible to retire immediately under SB 22, but must wait longer to start receiving the monthly benefits or take refunds rather than waiting to start receiving the monthly benefits.

2. Disability benefits
   a. A possible increase in the number of disabilities who are certified as recovered during the longer period until normal retirement age.
   b. An increase in the number of members who qualify for disability benefits with a longer window of time eligible for disabilities (between age 62 and either age 67 or the age of retirement set by the Social Security Administration, if greater) coupled with a higher likelihood of becoming disabled (disability rates increase with age).

3. A decrease in the number of members entering the DROP, and possibly a reduction in the number of years in DROP.

Under SB 22, as new members enter the Systems, and members who were first employed before July 1, 2021, retire or otherwise leave the systems, total normal costs would decrease.

For members who work longer, it is recognized that the number of years of service and the final average compensation used in the benefit formula will be higher. This, by itself results in a higher monthly benefit. However, their benefits would commence later for retirees and for vested terminated members, and that would cause the total actuarial present value of the lifetime of benefits to decrease. The LSERS actuary has estimated the ultimate normal cost accrual rate for LSERS would be expected to decline by approximately 1.8% over the long term. No such numerical estimate is available for LASERS or TRSL but is also believed to be a decrease for the same reason.

Neither the current unfunded liabilities nor the unfunded liabilities on the effective date are expected to be affected by SB 22.

These retirement systems will incur administrative expenses to implement this proposed bill, likely for the first year only, to coordinate the development of new educational materials, printing, training and various other administrative expenses, and for additional computer programing to create the software components of the new tier. The increase in administrative costs borne by the systems is not expected to offset the decrease in actuarial costs resulting form SB 22.

Therefore, the effect on the net actuarial present value of all benefits and expenses is estimated to be a decrease.

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

The liability for post-retirement medical insurance subsidies provided to retirees will decrease since a later retirement date reduces the number of years for which a retiree will be eligible for post-employment benefits.

B. <u>Actuarial Data, Methods and Assumptions</u>
(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. <u>Actuarial Caveat</u>
(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.

2021 REGULAR SESSION
ACTUARIAL NOTE SB 22

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	2021-22	2022-23	2023-24	2024-25	2025-26	5 Year Total
State General Fund	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	Increase	0	0	0	0	Increase
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	Increase	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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

All expenditures for employer contributions are reflected on one or two lines in the table above. The actual sources of funding (e.g., Federal Funds, State Deds/Other) may vary by employer and are not differentiated in 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. Expenditures from the State General Fund will decrease slightly during the first five year fiscal measurement period. As new members enter the Systems, their normal costs rates will pull down the total normal cost slightly and cause a slight decrease in the State contributions during the five year fiscal measurement period.

   b. Expenditures from LASERS, TRSL and LSERS (Agy Self Generated) will increase in the first year for the additional computer programming needed and the one-time costs related with SB 22 (to coordinate the development of new educational materials, printing, training and various other administrative expenses). Future increases in disabilities or decreases in retirement benefits paid would not be recognized until after the five year measurement period.

   c. Expenditures from Local Funds will decrease slightly during the first five year fiscal measurement period. As new members enter the Systems, their normal costs rates will pull down the total normal cost slightly and cause a slight decrease in the contributions from Local Funds during the five year fiscal measurement period.

3. Revenues:

LASERS, TRSL and LSERS revenues (Agy Self Generated) will decrease slightly during the five year measurement period since the employer contributions received will be slightly lower. The decrease will initially be very small, but will become increasingly larger each year thereafter.

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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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:

No measurable effects during the next five years, until the affected new members begin to retire.

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 (savings) relating to administrative expenditures 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 administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost 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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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 administrative costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

Proposed changes may impact the hiring and retention of future employees; however, any related cost increases or savings for employers are unknown and cannot be quantified.

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 cost (savings) relating to administrative expenditures 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 Chris Keaton, Legislative Fiscal Officer)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost 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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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:

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have 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.

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

☐ SB 22 contains a retirement system benefit provision having an actuarial cost.

No member of the Louisiana State Employees' Retirement System, the Teachers' Retirement System of Louisiana, or the Louisiana School Employees' Retirement System would receive a larger benefit with the enactment of SB 22 than what he would have received without SB 22.

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 2021 regular session.

2021 REGULAR SESSION
ACTUARIAL NOTE SB 22

Senate			House		
☐	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**	☐	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**
☐	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**	☐	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**