2021 REGULAR SESSION
ACTUARIAL NOTE HB 22

House Bill 22 HLS 21RS-143 Reengrossed **Author: Representative LaCombe** **Date: May 6, 2021** **LLA Note HB 22.03** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **Parochial Employees' Retirement System of Louisiana** **RE INCREASE APV**	**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.**	
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Bill Header: RETIREMENT/TEACHERS: Provides relative to Louisiana School Boards Association employees' membership in retirement systems

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 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.

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

Bill Information

Current Law

Current law provides for the employees of the Louisiana School Boards Association (LSBA) to be members of the Parochial Employees' Retirement System (PERS).

Proposed Law

HB 22 provides for the following employees of the Louisiana School Boards Association to be members of the Teachers' Retirement System of Louisiana (TRSL) instead of PERS:

1. Any employee hired after June 30, 2021.
2. Any employee with at least five years of creditable service in TRSL as of June 30, 2021.
3. The director of the Louisiana School Boards Association.

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

If an employee of the LSBA separates from service and at the time of such separation is a member of PERS due to his employment with the LSBA, the LSBA will pay PERS that portion of the unfunded actuarial accrued liability, if any, existing on December 31st immediately prior to the date of separation of employment which is attributable to that position.

The unfunded accrued liability will be determined by the actuary employed by PERS using the entry age normal funding method and PERS' actuarial value of assets. The portion of the unfunded actuarial accrued liability attributable to any such position will be determined based upon the annual salary of the person who left the position divided by the total annual salary for all participating members of PERS Plan B.

Implications of the Proposed Changes

Future employees of the Louisiana School Boards Association hired after June 30, 2021 will become members of TRSL instead of PERS. In addition, the director of the Louisiana School Boards Association and any employee of the Louisiana School Boards Association who has at least five years of creditable service in TRSL as of June 30, 2021 will be members of TRSL instead of PERS as of the effective date. The proposed bill is silent regarding any creditable service earned under PERS by the director and any employees who may have also had at least five years of creditable service in TRSL as of June 30, 2021, leaving them to arrange for transfers of service credits under existing law.

The LSBA will become responsible for a portion of PERS' unfunded actuarial accrued liability when an employee of the LSBA who is a member of PERS separates from service, whereas under current law it has no such responsibility.

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 an increase in cost. The actuary's analysis is summarized below.

The LSBA is a private not-for-profit entity, not a state agency or a local government. LSBA currently participates in PERS (Plan B).

According to LSBA officials, out of their five current employees, three employees do not satisfy HB 22's conditions for moving their retirement plan coverage from PERS (Plan B) to TRSL and, therefore, will remain in PERS (Plan B), unaffected by HB 22.

However, there are two current employees who do satisfy such conditions under HB 22 and will transfer from PERS (Plan B) to TRSL. Under HB 22, these two LSBA employees as well as all new hires after June 30, 2021 are eligible to earn benefits under TRSL at equal or higher multiplier rates using equal or more favorable final average compensation and payable at an earlier retirement date than they would if they continue under PERS (Plan B).

Therefore, HB 22 provides greater benefits to these two current employees and to all future hires than current law: HB 22 would result in a decrease in expected benefits from PERS (Plan B), but a greater increase in benefits expected from TRSL.

In addition, HB 22 would result in higher employer and employee contributions under TRSL than under PERS (Plan B). Therefore, there is a net increase in revenue to the retirement systems: HB 22 would result in a decrease in such contributions by LSBA to PERS (Plan B), but a higher increase to TRSL. The employer contributions paid by LSBA (a private not-for-profit entity) to TRSL under HB 22 would be higher than to PERS (Plan B) in the absence of HB 22.

HB 22 will also prevent cost-shifting of a portion of PERS' unfunded actuarial accrued liability (UAAL) from LSBA to the remaining employers of PERS should a UAAL exist at the end of the year immediately prior to an employee of the LSBA separating from service. The funding method employed by PERS under the current statutes does not explicitly identify contributions required for paying off of UAAL. Should the actuarial value of assets drop below the actuarial accrued liability giving rise to a UAAL, any such shortfall will be financed over working lives of remaining active employees. If a new employee replacing the separating LSBA employee is not enrolled in PERS, funding of UAAL would be shifted to remaining employers. In order to minimize such cost shifting, HB 22 requires LSBA to remit an amount equal to that portion of UAAL which is allocated to the separating employee. While this employer-specific unfunded actuarial accrued liability established under the proposed law is not directly used under the method otherwise employed by the statutes for funding the plan under the current law and therefore is not an exact representation of the contribution obligation for exiting employees, it is a convenient estimate. The UAAL for PERS' Plan B is currently estimated to be zero and as such this provision has no immediate impact on the system revenues; but that could change in the future.

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 state and local government liability for any post-retirement medical insurance subsidies provided to retirees is not affected by the membership of the employees of the Louisiana School Boards Association.

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 actuaries' 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	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	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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 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 for benefits by TRSL (Agy Self Generated) are expected to increase when more employees than currently expected will become members of TRSL and then either terminate or retire.

b. Expenditures for benefits by PERS (Agy Self Generated) are expected to decrease when fewer employees than currently expected will be members or become members of PERS.

c. The net effect on the expenditures for benefits (Agy Self Generated) is expected to be an increase.

d. The employer contribution requirement from TRSL would include a small allocation of unfunded liability amortization contributions from LSBA even though the two new members would bring no unfunded liability with them into TRSL. That slight re-allocation to LSBA (a private not-for-profit entity) causes a slight decrease in unfunded liability amortization contributions otherwise allocable to all other TRSL-participating entities (local governments). Therefore, contribution expenditures from all other TRSL-participating *local government* entities (Local Funds) and contribution expenditures from TRSL-participating *higher education institutions* (State General Fund) will decrease slightly as well.

e. The LSBA's expenditures are expected to increase slightly whenever an employee of the LSBA who is a member of PERS separates from service and the LSBA pays a portion of PERS' unfunded accrued liability attributable to that position. Since the LSBA is not a local government, but a private not-for-profit entity, this increase in expenditures is not reflected in Table A or the table on the first page of this Actuarial Note.

3. Revenues:

a. TRSL revenues (Agy Self Generated) are expected to increase since employer and employee contributions to the system are expected to be received.

b. PERS revenues (Agy Self Generated) are expected to decrease since lower employer and employee contributions will be received.

c. The net effect on the revenues (Agy Self Generated) is expected to be an increase.

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	**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.

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:

   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 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

[X] HB 22 contains a retirement system benefit provision having an actuarial cost.

Some members of the Teachers' Retirement System of Louisiana, transferred from Parochial Employees' Retirement System of Louisiana could receive a larger benefit with the enactment of HB 22 than what they would have received without HB 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.

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