OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE

House Bill 31 HLS 24RS-182	**Date: April 15, 2024**
Engrossed	**Organizations Affected: TRSL**
Author: Freiberg	
LLA Note HB 31.02	**EG SEE ACTUARIAL NOTE APV**

Bill Header: RETIREMENT/TEACHERS: Provides relative to the optional retirement plan and defined benefit plan for the Teachers' Retirement System of Louisiana

Purpose of Bill: This bill provides a 5-year window, from date of employment, for anyone who makes the election to participate in the TRSL Optional Retirement Plan (ORP) to re-elect to participate in the TRSL defined benefit plan (DBP), on a prospective basis only. The election to participate in the ORP or to move back to the DBP may only be made one time. Any member hired prior to August 1, 2020, that is actively participating in the ORP as of June 30, 2024, will have a similar opportunity to make a one-time election to begin participating in the DBP through June 30, 2025.

Cost Summary[1]: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

The expected change in the ***net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems*** from the proposed law is estimated to be an **increase** because total benefits paid from the TRSL DBP would increase. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

This bill is subject to 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. However, this bill is not expected to negatively impact the Actuarial Accrued Liability (AAL).

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation.

For the purpose of employer contributions (The Retirement Systems revenues and Local Government Entities and State Government Entities expenditures in the table below), ORP and DBP are considered as a single entity under TRSL. Given the current structure of contributions to both the ORP and DBP, total employer contributions are expected to decrease slightly. However, contributions to an individual member's ORP fund will decrease while contributions to the DBP will increase. A more detailed explanation can be found in Section II: Fiscal Impact on Retirement Systems.

Five Year Net Fiscal Costs Pertaining to:	Expenditures	Revenues
The Retirement Systems	$ 0	See Section II
Local Government Entities	See Section II	0
State Government Entities	See Section II	0
Total	**See Section II**	**See Section II**

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	Expenditures	Revenues
Local Government Entities	$ 0	$ 0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

[1] This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "**Information Pertaining to La. Const. Art. X, §29(F)**").

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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

2024 REGULAR SESSION
ACTUARIAL NOTE HB 31

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

The net change in actuarial present value of expected future benefits incurred by the retirement systems from the proposed legislation is expected to be an increase because total benefits paid from the TRSL defined benefit plan (DBP) would increase. Administrative expenses are not expected to change.

Under present law, certain employees of public colleges and universities may elect to participate in the TRSL Optional Retirement Plan (ORP) rather than the DBP, any time before the employee accrues five years of credited service in the DBP. In other words, the DBP is the default program, with a 5-year opt-out window to elect the ORP instead of the DBP. Once made, this election is irrevocable.

Proposed law will provide a 5-year window, from date of employment, for anyone who makes the election to participate in the ORP to re-elect to participate in the DBP, on a prospective basis only. The election to participate in the ORP or to move back to the DBP may only be made one time. Any member hired prior to August 1, 2020, that is actively participating in the ORP as of June 30, 2024, will have a similar opportunity to make a one-time election to begin participating in the DBP through June 30, 2025.

As noted above, the actuarial present value of expected future benefits (PVFB) will increase because the PVFB is a representation of the total benefit earned at retirement and therefore includes costs attributable to both past and future service. However, this bill is not expected to negatively impact the Actuarial Accrued Liability (AAL) because the AAL only includes costs attributable to past service. Under this bill, any individual making an election will not receive credit for service prior to February 1, 2025 in the DBP.

The primary risks faced by the TRSL DBP from this bill are the potential for higher than expected costs associated with anti-selection related to which currently employed individuals take advantage of this option and the potential for an increase in total normal cost for the higher education plan.

Anti-selection risk occurs when an individual's risk factors differ from the general risk factors used to price the defined benefit plan. Generally, this is important when a large benefit may otherwise be available in a short period of time (e.g. when past service is granted or can be purchased at rates advantageous to the individual). Normal cost risk occurs because the older a person is when they first begin participation in the plan, the costlier it is to provide a given benefit. Tis occurs, because there is generally a shorter period of time until they reach retirement eligibility and therefore a shorter period of time over which to fund the benefit. Both of these risks are minimized by:

1) Limiting the time period during which the election can be made by requiring someone to be actively participating in the ORP as of June 30, 2024 and requiring the election be received by TRSL no later than December 30, 2024; and
2) Treating these individuals as new plan entrants, i.e. not granting past service credit or providing the ability to purchase past service credit.

The temporary nature limits the total population eligible to take advantage of this option. Further, because these transfers will be treated as new employees for benefit accrual purposes, only individuals who are expecting to continue working for an extended period of time are likely to view this option as advantageous. Permitting future employees to also make this election increases potential risk to the retirement system, but again, these risks are minimized because the choice is limited to the first 5 years of employment and transfers will be treated as new employees for benefit accrual purposes. To the extent any of these limitations are loosened in the future, the expected costs and risk to the retirement system could increase significantly.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. 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.

Table A: Retirement System Fiscal Cost

Expenditures	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5-Year Total**
State General Fund	$ 0	$ 0	See below	See below	See below	See below
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	See below	See below	See below	See below
Annual Total	**$ 0**	**$ 0**	**See below**	**See below**	**See below**	**See below**

Revenues	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5-Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self-Generated	0	0	See below	See below	See below	See below
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**	**See below**	**See below**	**See below**	**See below**

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

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

1. Expenditures:

   a. To the extent members of ORP transfer to the DBP, future expenditures from TRSL (Agy Self-Generated) DBP will increase due to new members being eligible for monthly benefit payments after having transferred into the DBP. However, because past service credit for benefit accrual purposes is not granted, while it is possible, it is unlikely a member will accrue a sufficient benefit to retire and begin payments within the next five years. Any change in withdrawals of employee contributions would be available under both the ORP and DBP so are not considered a change. Therefore, any potential increase in benefit payments during this period would be minimal.
   b. TRSL indicated that any administrative costs associated with implementing this change could be absorbed within the existing budget.
   c. For the purpose of employer contributions (State General Fund and Local Funds expenditures), ORP and DBP are considered as a single entity under TRSL. Given the current structure of contributions to both the ORP and DBP, total employer contributions are expected to decrease slightly. However, for individuals who switch to the DBP, contributions to that individual member's ORP fund, which are solely for the benefit of that individual, will end, while contributions to the DBP, which become part of the DBP fund, will begin. Outlined below are the changes in total contributions under present and proposed law for a given individual who elects to move from the ORP to the DBP.

Contribution (as a % of payroll)	ORP	DBP
Employer ORP Contribution	6.20%[1]	0.00%
Employer DBP Normal Cost	0.00%	3.10%[2,3]
Admin Expense Rate	0.00%[4]	0.38%[2]
Shared UAL Rate	15.90%[2]	15.90%[2]
AFC Rate	0.00%	1.50%[2]
Total Employer Contribution	22.10%	20.88%
Employee Contribution	8.00%[4]	8.00%

[1]Statutory minimum required contribution. Higher education boards created by Article VIII of the Louisiana Constitution can establish the employer contribution rate above 6.2% by board resolution.
[2]Applicable for the 2024-25 FY.
[3]Does not account for any change in Employer Normal Cost rate due to changes in the demographic make-up of the DBP associated with the bill. Any increase is likely to be smaller than the decrease in the total employer contribution rate.
[4]Administrative expenses of the ORP are currently borne exclusively by participating employees. Proposed law will limit the employee portion to no more than the lesser of 1/2 of the actual fee or 0.5% of pay for the employee with the remainder being paid by the employer.

2. Revenues:

   Employer contributions to the retirement systems are represented as Agy Self-Generated revenues in Table A above.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES
(Prepared by LLA Local Government Services)

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Table A.

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Table A.

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 and revenues as a result of this measure.

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

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

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 at rates that differ from what was 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.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the U.S. Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

☒ This bill 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 this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2024 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 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 bill is dual referred to:
Dual Referral: Appropriations

☐ 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes ≥ $500,000, then bill is dual referred to:
Dual Referral: Ways and Means