# 2013 REGULAR SESSION
# ACTUARIAL NOTE SB 7

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| **Senate Bill 7 SLS 13RS-196**<br>**Original**<br><br>**Author: Senator Barrow Peacock**<br>**Date: March 20, 2013**<br><br>**LLA Note SB 7.01**<br><br>**Organizations Affected:**<br>**All State Retirement Systems**<br>**Most Statewide Retirement Systems**<br><br>**OR -$107,000,000 FC GF LF EX** | **This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 7 provides compliance with the requirements of R.S. 24:52**<br><br>**Paul T. Richmond, ASA, MAAA, EA**<br>**Manager Actuarial Services** |

**<u>Bill Header:</u>** RETIREMENT BENEFITS. Provides a sixty-month final average compensation period for members of state and statewide retirement systems. (7/1/13)

**<u>Cost Summary:</u>**

The estimated actuarial and fiscal impact of the proposed legislative is summarized below. Actuarial costs pertain to changes in the ***unfunded actuarial accrued liability***. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

| | |
|---|---:|
| Actuarial Cost/(Savings) to Retirement Systems and OGB | $ (571,300,000) |
| Total Five Year Fiscal Cost | |
| Expenditures | $ (428,000,000) |
| Revenues | $ (428,000,000) |

**<u>Estimated Actuarial Impact:</u>**

The chart below shows the estimated change in the ***unfunded actuarial accrued liability***, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

| **Actuarial Cost/(Savings) to:** | **Change in the Unfunded Accrued Liability** |
|---|---:|
| All Louisiana Public Retirement Systems | $ (571,300,000) |
| Other Post Retirement Benefits | 0 |
| Total | $ (571,300,000) |

**<u>Estimated Fiscal Impact:</u>**

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

| **EXPENDITURES** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-2018** | **5 Year Total** |
|---|---:|---:|---:|---:|---:|---:|
| State General Fund | $ 0 | $ (26,700,000) | $ (26,700,000) | $ (26,700,000) | $ (26,700,000) | $ (106,800,000) |
| 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 | (80,300,000) | (80,300,000) | (80,300,000) | (80,300,000) | (321,200,000) |
| Annual Total | $ 0 | $ (107,000,000) | $ (107,000,000) | $ (107,000,000) | $ (107,000,000) | $ (428,000,000) |

| **REVENUES** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-2018** | **5 Year Total** |
|---|---:|---:|---:|---:|---:|---:|
| State General Fund | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Agy Self Generated | 0 | (107,000,000) | (107,000,000) | (107,000,000) | (107,000,000) | (428,000,000) |
| 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 | $ (107,000,000) | $ (107,000,000) | $ (107,000,000) | $ (107,000,000) | $ (428,000,000) |

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**Bill Information:**

**Current Law**

Current law provides for a 3 year final average compensation period for certain members of state and statewide retirement systems. Current law also contains anti-spiking provisions that vary from system to system.

**Proposed Law**

SB 7 changes the final average compensation computation period and anti-spiking provisions for the following systems.

| | |
|---|---|
| Louisiana State Employees' Retirement System | LASERS |
| Teachers' Retirement System of Louisiana | TRSL |
| Louisiana School Employees' Retirement System | LSERS |
| Louisiana State Police Retirement System | STPOL |
| Louisiana Assessors' Retirement System | ASSR |
| Firefighters Retirement System | FRS |
| Municipal Police Employees' Retirement System | MPERS |
| Parochial Employees' Retirement System | PERS |
| Registrars of Voters Employees' Retirement System | RVRS |
| Sheriffs' Pension and Relief Fund | SPRF |

These changes are summarized below.

| Retirement System | Current Provisions | Provisions under SB 7 |
|---|---|---|
| **LASERS**<br>• Rank and File members including law clerks first employed on or before 6/30/2006.<br>• Judges and Court Officers first employed on or before 12/31/2010.<br>• Legislators first employed on or before 6/30/2013.<br>• Correction Primary first employed on or before 12/31/2010.<br>• Correction Secondary first employed on or before 12/31/2010.<br>• Peace Officers first employed on or before 12/31/2010.<br>• ATC Officers first employed on or before 12/31/2010.<br>• Bridge Police first employed on or before 6/30/2006.<br>• Wildlife Agents first employed on or before 12/31/2010. | 3 Year FAC<br>25% Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **TRSL**<br>• All members first employed on or before 12/31/2010. | 3 Year FAC<br>10% Anti-Spiking | 5 Year FAC<br>10% Anti-Spiking |
| **LSERS**<br>• All members first employed on or before 6/30/2006. | 3 Year FAC<br>10% Anti-Spiking | 5 Year FAC<br>10% Anti-Spiking |
| **STPOL**<br>• All members first employed on or before 12/31/2010 | 3 Year FAC<br>25% Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **ASSR**<br>• All members first employed on or before 9/30/2006 | 3 Year FAC<br>No Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **FRS**<br>• All members. | 3 Year FAC<br>15% Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **MPERS**<br>• All members first employed on or before 12/31/2012. | 3 Year FAC<br>15% Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **PERS** Plans A and B<br>• All members first employed on or before 6/30/2006. | 3 Year FAC<br>15% Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **RVRS**<br>• All members. | 5 Year FAC<br>No Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |
| **SPRF**<br>• All members first employed on or before 6/30/2006. | 3 Year FAC<br>No Anti-Spiking | 5 Year FAC<br>15% Anti-Spiking |

Retirement benefits for all current members of state and statewide retirement systems other than those identified above are based on a 5 year final average compensation period. All members other than those identified above have a 15% anti-spiking provision except for the following members which are subject to a 10% anti-spiking provision.

- Members of LSERS first employed on or after 7/1/2006 and on or before 12/31/10.

The provisions of SB 7 will be implemented in the following manner.

1. These provisions will not apply to any member who retires on or before December 31, 2013.

2. For members who retire on or after January 1, 2014, the final average compensation period shall be 36 months plus one month for each whole month that retirement occurs after January 1, 2014.

3. The benefit of any member who retires on or after January 1, 2016, will be based on a 60 month, or 5 year, final average compensation period.

4. In no event will the final average compensation be less than the amount that would have been calculated as of January 1, 2014.

**Implications of the Proposed Changes**

The final average compensation period for all state and statewide retirement system will be standardized at 5 years. Anti-spiking provisions will be standardized at 15% except for members of TRSL and LSERS first employed on or before December 31, 2010, who will be limited to 10% increases in the final average compensation period.

## Cost Analysis:

**Analysis of Actuarial Costs**

**Retirement Systems**

SB 7 will have the following effect on actuarial costs associated with the state and statewide retirement systems.

The total reduction in the unfunded accrued liability for state retirement systems is about $491.5 million. The total reduction in annual employer contribution requirements is about $74.0 million.

**Reductions in Costs Associated with the State Retirement Systems**

| Cost Component | LASERS | TRSL | LSERS | STPOL |
|---|---|---|---|---|
| Normal Cost | $ 9,700,000 | $ 20,300,000 | $ 1,600,000 | $ 600,000 |
| Unfunded Accrued Liability | 182,000,000 | 273,000,000 | 25,600,000 | 10,900,000 |
| Amortization Costs | 15,500,000 | 23,300,000 | 2,100,000 | 900,000 |
| Total Employer Contribution Requirement | 25,200,000 | 43,600,000 | 3,700,000 | 1,500,000 |
| Employer Contribution Rate | 1.02% | 1.01% | 1.27% | 2.42% |

Savings from SB 7 for the following statewide retirement systems are reflected in changes in the normal cost. The total reduction in annual contribution requirements for these systems is estimated to be $22.3 million. Note that there are no actuarial savings associated with RVRS because the only change was the addition of an anti-spiking provision. Actuarial projections do not anticipate pay increases in the last five years of employment to exceed 15%. Therefore there are no measurable savings.

**Reductions in Costs Associated with Statewide Retirement Systems**

| Cost Component | ASSR | PERS Plan A | PERS Plan B | RVRS | SPRF |
|---|---|---|---|---|---|
| Present Value of Future Benefits | $ 8,700,000 | $ 84,600,000 | $ 6,800,000 | $ 0 | $ 96,000,000 |
| Net Employer Contribution Requirements | 1,000,000 | 10,300,000 | 800,000 | 0 | 10,200,000 |
| Net Employer Contribution Rate | 2.52% | 1.80% | 0.96% | 0.00% | 1.62% |

Savings from SB 7 for the following statewide systems are reflected in changes in the accrued liability, the normal cost and in amortization costs. The total reduction in the unfunded accrued liability for these systems is about $79.8 million. The total reduction in annual employer contribution requirements is about $10.7 million.

**Reductions in Costs Associated with Statewide Retirement Systems**

| Cost Component | FRS | MPERS |
|---|---|---|
| Normal Cost | $ 1,900,000 | $ 1,500,000 |
| Unfunded Accrued Liability | 36,300,000 | 43,500,000 |
| Amortization Costs | 3,800,000 | 3,500,000 |
| Total Employer Contribution Requirement | 5,700,000 | 5,000,000 |
| Employer Contribution Rate | 2.76% | 1.83% |

In summary, annual employer contribution requirements to the state and statewide retirement systems affected by SB 7 will be reduced about $107 million. The total unfunded accrued liability for the state and statewide systems using a funding method that produces such a value will be reduce about $571.3 million,

Realization of these savings may be delayed or may never occur. It is possible that the constitutionality of SB 7 will be challenged in state or federal courts. According to a memorandum issued by Strasburger, Attorneys at Law to the Office of the Louisiana Legislative Auditor on March 26, 2012, entitled Legal Analysis of 2012 Pension Bills (see www.lla.la.gov/reports_data/actuaryreports) challenges would likely allege violations under:

1. Article X, §29 of the Louisiana Constitution which protects public pension benefits,

2. The Contract Clause within both the Louisiana and U.S. Constitutions claiming contract impairment due to diminished benefits,

3. The Takings Clause of both the Louisiana and U.S. Constitutions for divesting public employee benefits without just compensation,

4. The Due Process Clauses of both the Louisiana and U.S. Constitution and the Fifth Amendment to the U.S. Constitution for depriving employees of property rights without due process, and

5. 42 U.S.C. §1983 against public officials for enforcing unconstitutional laws.

**Other Post Retirement Benefits**

There are no actuarial costs associated with SB 7 for post-employment benefits other than pensions.

**Analysis of Fiscal Costs**

SB 7 will have the following effect on fiscal costs.

Expenditures:

1. Annual expenditures from the General Fund will decrease $26,700,000 because employer contribution requirements for LASERS and STPOL will be reduced. Expenditures from the General Fund should also be reduced to the extent that employer contributions relative to higher education members of TRSL are reduced. Nevertheless, because higher education is a relatively small part of TRSL, reductions of expenditures pertaining to higher education have been included under Local Funds.

2. Annual expenditures from state and statewide retirement systems (Agy Self Generated) will decrease because calculations of final average compensation will be smaller beginning January 1, 2014, than they would have been without SB 7. These reductions in benefit payments will initially be small but will increase gradually as the size of the retiree population who retire subsequent to January 1, 2014, increases. A precise measurement of the dollar savings in retiree payrolls has not been made because the dollar savings in benefit payments during the five year fiscal measurement will be insignificant relative to the reduction in employer contributions.

3. Annual expenditures from Local Funds will decrease $80,300,000 because employer contribution requirements for TRSL, LSERS, and applicable statewide systems will be reduced.

Revenues:

- Annual revenues to state and statewide retirements systems (Agy Self Generated) affected by SB 7 will be reduced to the extent that employer contribution requirements are reduced.

**Actuarial Credentials:**

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member 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.

**Dual Referral:**

| **Senate** | **House** |
|---|---|
| ☐ 13.5.1 ≥ \$100,000 Annual Fiscal Cost | ☐ 6.8(F)(1) ≥ \$500,000 Annual Fiscal Cost |
| ☐ 13.5.2 ≥ \$500,000 Annual Tax or Fee Change | ☐ 6.8(G ≥ \$500,000 Annual Tax or Fee Change |