2013 REGULAR SESSION
ACTUARIAL NOTE SB 10

Senate Bill 10 SLS 13RS-11
Original

Author: Senator Elbert L. Guillory
Date: March 21, 2013

LLA Note SB 10.01

Organizations Affected:
Statewide Retirement Systems

OR INCREASE APV

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 10 provides compliance with the requirements of R.S. 24:52.

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__Bill Header:__ RETIREMENT SYSTEMS. Provides funding criteria a statewide retirement system must meet before granting a benefit increase. (6/30/13)

__Cost Summary:__

The estimated actuarial and fiscal impact of the proposed legislative is summarized below. Actuarial costs pertain to changes in the ***actuarial present value of future benefit payments***. 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	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

__Estimated Actuarial Impact:__

The chart below shows the estimated change in the ***actuarial present value of future benefit payments***, 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 to:__	__Change in the Actuarial Present Value__
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	$0
Total	Increase

__Estimated Fiscal Impact:__

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. Actuarial or 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	$ 0	$ 0	$ 0	$ 0	$ 0
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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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

<u>Bill Information:</u>

Current Law

The legislature has given the boards of trustees of the statewide retirement systems limited authority to grant Permanent Benefit Increases (PBIs). Rules governing when the boards may grant a PBI are summarized below.

A. Timing Limitations – Unless otherwise noted, the board:

1. May not take action to authorize a PBI during any calendar year prior to the end of the legislative session for that year.

2. May not take action to authorize a PBI during the first six months of any fiscal year.

3. May not take action to authorize a PBI in any calendar year in which the legislature has granted a PBI unless the legislation granting such PBI specifically allows the board to also take PBI action.

B. Investment Gain and Target Ratio Tests

- Unless otherwise noted, the board may not take action to authorize a PBI unless the system realizes an investment gain and the funded ratio is at least equal to the Target Ratio.

  a. Investment Gain Test.

    1) The rate of investment return on the actuarial value of assets for the fiscal year immediately before the PBI is granted must have exceeded the rate of return assumed by the actuary for the most recent actuarial valuation.

    2) Available Funds is defined as the dollar amount of the investment gain for the prior fiscal year.

    3) The present value of any PBI granted by the board may not exceed Available Funds.

  b. Target Ratio Test.

    1) The system actuary must certify that the funded ratio for the system at the end of the prior fiscal year exceeded the Target Ratio,

    2) The actuary for the Legislative Auditor must also certify that the system's funded ratio exceeded the Target Ratio.

    3) If the actuary for the Legislative Auditor does not certify, then the board may appeal to PRSAC.

C. Benefit Amount

- Each statewide system has specific rules identifying the size of the benefit increase that may be granted. These rules vary from system to system.

D. Target Ratio

- The Target Ratio for a given system is the sum of the following amounts, but not to exceed 100%.

  a. The system's funded ratio in 1986, plus

  b. 1/30 x (100% - the 1986 funded ratio), plus

  c. Changes in the system's funded ratio due to mergers and changes in actuarial methods and assumptions.

  d. 1/30 x the amount of the change in funded ratio due to the event identified in item 3 above x (30 - the number of years that have elapsed since the change occurred).

Proposed Law

A board of trustees for a statewide retirement system must make an irrevocable decision to have future PBIs determined in accordance with a new set of rules that replaces current law. If a board fails to make such a decision in a public meeting on or before December 31, 2013, current law will continue to apply.

If a board makes an irrevocable decision to be governed by the new rules of SB 10, then the ability to grant PBIs will be determined in accordance with the following:

A. Timing Limitations – Unless otherwise noted, the board:

1. May not take action to authorize a PBI during any calendar year prior to the end of the legislative session for that year.

2. May not take action to authorize a PBI during the first six months of any fiscal year.

3. May not take action to authorize a PBI in any calendar year in which the legislature has granted a PBI unless the legislation granting such PBI specifically allows the board to also take PBI action.

B. Funding Deposit and Funded Ratio Tests

- The board may take action to authorize a PBI if either the Funding Deposit Test or the Funded Ratio Test is satisfied.

  a. Funding Deposit Test.

  - A board is permitted to grant a PBI if sufficient funds are available in the system's Funding Deposit Account to pay for the PBI (this means that the system has pre-funded the cost of the PBI).

  b. Funded Ratio Test

  1) Funded Ratio – A system's funded ratio is equal to the ratio of the actuarial value of system assets to the actuarial accrued liability calculated under the entry age normal funding method.

  2) Permissible PBI Grants – A board is permitted to grant a PBI under the following circumstances:

     a) The system has a Funded Ratio of 90% or more and has not granted a benefit increase in the most recent year.

     b) The system has a Funded Ratio of 80% or more and has not granted a benefit increase in the two most recent years.

     c) The system has a Funded Ratio of 70% or more and has not granted a benefit increase in the three most recent years.

  3) Other Rules

     4) The actuary for the system and the actuary for the Legislative Auditor must both certify that the system's Funded Ratio was sufficient to grant the PBI.

     5) If the actuary for the Legislative Auditor does not certify, then the board may appeal to PRSAC.

C. Benefit Amount

- Each statewide system has specific rules identifying the size of the benefit increase that may be granted. These rules vary from system to system. SB 10 does not change these rules.

Implications of the Proposed Changes

If SB 10 is enacted, retirees of a retirement system that adopts the new rules will be more likely to receive a PBI than they would have been under current law.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

SB 10 replaces an unpredictable intermittent method for granting PBIs that has only rarely given the boards the authority to provide a benefit increase, to a new method that will allow the boards to grant PBIs more frequently. However, the new method will still be ad hoc (i.e., intermittent and requiring specific board approval). Because PBIs will likely be given more often, the actuarial present value of future benefit payments will increase. Because of the ad hoc nature of the PBI grant, a precise measurement of the increase in cost has not been measured. However, there is a cost.

1. It is quite likely that a board under this legislation will grant a PBI when the system satisfies the necessary conditions.

2. The boards may grant a benefit improvement and establish new unfunded liabilities when a system is only 70%, 80% or 90% funded.

3. It is unlikely that a retirement system granting PBIs every time one is permitted will become 100% funded.

The actuarial and accounting communities through Actuarial Standards of Practice and GASB Statement Nos. 67 and 68 are becoming increasingly concerned about ad hoc PBIs that in practice become automatic. The Actuarial Standards Board and GASB both strongly suggest that such benefit provisions be valued and included in the measurements of liability and contribution requirements. System liabilities and employer contribution requirements will increase significantly if such inclusion becomes mandatory.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 10 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 10 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from statewide retirement systems will increase every time that the necessary conditions are satisfied and the boards approve a PBI. A 2% PBI would increase benefits in pay status from about $30,000 a year for RVRS to about $2,200,000 per year for PERS.

2. Expenditures from Local Funds will increase because employer contribution requirements will increase to pay for new unfunded accrued liabilities created by PBI grants.

Revenues:

- Retirement system revenues (Agy Self-Generated) will increase because employer contribution requirement will increase.

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**
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[x] 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