


**2013 REGULAR SESSION
ACTUARIAL NOTE SB 16**

<p>Senate Bill 16 SLS 13RS-219 Original</p> <p>Author: Senator Gerald Long Date: March 22, 2013</p> <p>LLA Note SB 16.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR INCREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 16 provides compliance with the requirements of R.S. 24:52.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT SYSTEMS. Provides for the definition of “regular retirement plan” for higher education employees participating in the Teachers’ Retirement System of Louisiana. (2/3 – CA10s29(F)) (gov sig)

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.

<u>Actuarial Cost/(Savings) to:</u>	<u>Change in the Actuarial Present Value</u>
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. 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	Increase	Increase	Increase	Increase	Increase	Increase
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	0	0	0	0	0
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	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

There are three sub plans applicable to higher education members of the Teachers' Retirement System of Louisiana (TRSL).

1. A traditional defined benefit plan for members first employed on or before June 30, 2013,
2. A cash balance plan for members first employed on or after July 1, 2013,
3. An alternative defined contribution plan – referred in law as the Optional Retirement Plan (ORP) – that may be elected by any employee in higher education at the time of employment in lieu of participating in either the traditional defined benefit plan or the cash balance plan.

A member who elects to participate in ORP will contribute the same amount annually as he would have been required to contribute had he not elected ORP. Similarly, his employer will contribute to ORP on his behalf the same normal cost rate that it would have been required to contribute had the member not elected ORP. Employee and employer normal cost rates for FYE 2014 applicable to higher education members of TRSL are summarized below.

Employee and Employer Contributions Requirements

For Higher Education Members First Employed	Employee Contribution Rate	Employer Normal Cost Rate
On or before June 30, 2013	8.0%	5.1839%
On or after July 1, 2013	8.0%	1.8000%

Note: These contribution rates pertain regardless of whether the employee elected or did not elect to participate in ORP.

Employee and employer contributions are remitted to TRSL regardless of a member's ORP election. TRSL retains the contributions if a member did not elect ORP. TRSL forwards contributions made on behalf of ORP members to the vendor engaged to provide defined contribution and investment services for ORP members. Note: TRSL retains 5 basis points of employee contributions to ORP as an administrative fee.

Proposed Law

SB 16 provides that the employer contribution rate for ORP members first employed on or after July 1, 2013, will be the same rate as applicable to members first employed on or before June 30, 2013. This is illustrated by reference to the above table. The employer contribution rate for FYE 2014 that will be made on behalf of any employee of higher education first employed on or after July 1, 2013, who elects to participate in ORP will be 5.1839% of pay instead of 1.8000% of pay.

Implications of the Proposed Changes

If SB 16 is enacted, employees in higher education first employed on or after July 1, 2013, electing to participate in ORP will receive a larger employer contribution than they would have received without regard to SB 16.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

For every 10 higher education employees first employed on or after July 1, 2013, who elect to participate in ORP, employers will contribute \$20,303 more to ORP under SB 16 than they would have otherwise. This calculation, shown below, is based on the assumption that each member will earn \$60,000 a year in FYE 2014.

$$10 \text{ members} \times \$60,000 \times (5.1839\% - 1.8000\%) = \$20,303$$

The actuarial present value of benefits (APV) payable to post 2013 ORP members will also increase. They will receive larger deposits into their individual ORP accounts and therefore benefits that ultimately become payable based on those accounts will be larger.

No unfunded actuarial accrued liabilities will be created by SB 16.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 16 for post-employment benefits other than pensions.

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Analysis of Fiscal Costs

SB 16 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase to the extent that employers of higher education employees first employed on or after July 1, 2013 who elect ORP will be contributing a larger amount than they would have otherwise.
2. Expenditures from TRSL (Agy Self-generated) will increase to the extent that amounts that must be forwarded to ORP vendors increase.

Revenues:

- TRSL revenues (Agy Self-generated) will increase to the extent that employers must contribute larger amounts on behalf of Post 2013 ORP members.

We estimate that the sum of all General Fund expenditures in the first three years of the fiscal measurement period will exceed \$500,000.

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

13.5.1 \geq \$100,000 Annual Fiscal Cost

13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

6.8(F)(1) \geq \$500,000 Annual Fiscal Cost

6.8(G) \geq \$500,000 Annual Tax or Fee Change