


**2013 REGULAR SESSION  
ACTUARIAL NOTE HB 43**

<p><b>House Bill 43 HLS 13RS-386 Engrossed with HRC Amend #2489</b></p> <p><b>Author: Representative Major Thibaut</b></p> <p><b>Date: May 9, 2013</b></p> <p><b>LLA Note HB 43.02</b></p> <p><b>Organizations Affected: Louisiana School Employees' Retirement System</b></p> <p><b>EG NO IMPACT APV</b></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 HB 43 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/SCHOOL EMPS: Provides relative to the payment of unfunded accrued liability associated with privatized jobs in local public school systems

**Cost Summary:**

The estimated actuarial and fiscal impact of the proposed legislation 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	\$0
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

**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.

<b>Actuarial Cost/(Savings) to:</b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	\$0
Other Post Retirement Benefits	\$0
<b>Total</b>	<b>\$0</b>

**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.

<b>EXPENDITURES</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>5 Year Total</b>
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
<b>Annual Total</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>

<b>REVENUES</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
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	0	0	0	0	0
<b>Annual Total</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>

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**Bill Information:**

**Current Law**

Under current law, if an employer participating in the Louisiana School Employees' Retirement System (LSERS) terminates a group of employees or eliminates one or more positions by privatizing, outsourcing, or contracting with a private employer, then the employer is required to pay its portion of the unfunded accrued liability (UAL), relative to the terminated employees, that existed on the June 30 immediately prior to the date of such privatization.

The amount calculated as the employer's share of the UAL shall be paid by the employer as a lump sum or as equal payments over a 10 year period with payments calculated based on the interest rate used by the actuary in the most recent actuarial valuation.

**Proposed Law**

Under HB 43, the period for amortizing the employer's share of the UAL will increase from 10 to 15 years for privatizations that occur on or after July 1, 2013.

All positions that have been eliminated by privatization shall be reported to LSERS by each employer by October 15 of each year. LSERS is given the authority to conduct compliance audits as necessary.

**Implications of the Proposed Changes**

HB 43 changes the amortization period from 10 to 15 years for amounts calculated as the employer's share of the UAL when privatization occurs on or after July 1, 2013.

**Cost Analysis:**

**Analysis of Actuarial Costs**

**Retirement Systems**

HB 43 has no effect on either the actuarial present value of future benefit payments (APV) for LSERS or on the accrued liability. The APV and accrued liability will remain the same regardless of whether or not HB 43 is enacted.

HB 43 has no effect on the unfunded accrued liability. Under current law, LSERS records an asset equal to the employer's privatization share of the UAL at the time such an amount is so identified. This occurs under current law regardless of whether the employer pays the amount immediately or requests a loan from LSERS to be paid over a 10 year period. An asset equal to the employer's privatization share will continue to be recorded under HB 43; the loan period has merely been extended from 10 to 15 years.

For similar reasons, HB 43 will have no effect on employer normal costs, on UAL amortization costs, or on total employer contribution requirements.

**Other Post Retirement Benefits**

There are no costs associated with HB 43 for post-retirement benefits other than pensions.

**Analysis of Fiscal Costs**

Enactment of HB 43 will have the following effect on fiscal costs over the next five year period.

Expenditures:

1. Expenditures from the privatizing employer (Local Funds) will decrease under HB 43 if the employer elects to take a loan from LSERS for its privatization share of the UAL. The loan will be amortized over a period of 15 years instead of 10 years. As a result, amortization payment will be smaller.
2. Expenditures for all other employers (Local Funds) will not be changed by HB 43.

Revenues:

- LSERS revenues (Agy/Self-Generated) will decrease because annual loan payments due from the privatizing employer will decrease.

**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.

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**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)  $\geq$  \$500,000 Annual Fiscal Cost

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