DIGEST

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Ivey HB No. 86

Abstract: Provides for application of certain amounts of state retirement system investment returns to debts of the system and increases the investment experience threshold a state retirement system must attain before funds may be transferred to the experience accounts, which are used to fund cost of living adjustments (COLAs) for retirees of such systems.

Proposed law generally provides for application of investment returns at a state retirement system that are in excess of the system's actuarially assumed rate of return and below 10% to be applied to debts of the system, as more specifically outlined below. Further changes the threshold at which excess returns are credited to the system experience account from the actuarially assumed rate of return to an actuarial rate of 10%. Details of proposed law are more fully explained below.

Experience accounts

Present law establishes experience accounts within all four state retirement systems: the La. State Employees' Retirement System (LASERS); the Teachers' Retirement System of La. (TRSL); the La. School Employees' Retirement System (LSERS); and the State Police Retirement System (STPOL). These accounts were established by the legislature as a mechanism for funding COLAs for retirees of such systems. Proposed law retains present law.

Present law provides that such accounts are credited with up to 50% of the actuarial gains the system earns above its actuarial assumed rate of return. These rates of return vary from system to system. For FY 2012-2013, the rates were as follows:

(1) LASERS = 8%
(2) TRSL = 8.25%
(3) LSERS = 7.25%
(4) STPOL = 7%

Proposed law changes the threshold for deposits to the accounts from the system's actuarially assumed rate of return to an actuarial rate of 10%. Retains present law provision that an amount up to 50% of the actuarial gains above the rate is credited to the account.

Investment returns applied to system debts

LSERS and STPOL:

Present law (R.S. 11:102) establishes the formula for determining state retirement system employer contribution rates each year. Present law formula includes amounts to cover the amortization payments of the liabilities for each of the state systems. Proposed law retains present law.

Proposed law provides that for the FY 2013-2014 system valuations for LSERS and STPOL, and for each valuation thereafter, if the system achieves actuarial gains in excess of its actuarially assumed rate of return, all of the gains achieved between the assumed rate of return and 10% are to be applied to the oldest outstanding liabilities of each system. These debts are not to be reamortized upon application of fund pursuant to proposed law. Further provides that upon complete payment of the oldest outstanding liability of a system, the funds are to be applied to the next oldest outstanding debt of the system until all such debts are fully paid.

LASERS and TRSL:

Present law (R.S. 11:102.1 and 102.2) establishes an Original Amortization Base (OAB) and an Experience Account Amortization Base (EAAB) for LASERS and for TRSL. Generally speaking, the OAB is a consolidated amortization base through which gains earned by the system between 1988 and 2009 are applied to the unfunded accrued liability of the system that existed as of June 30, 1988 (IUAL). Similarly, the EAAB is a consolidated amortization base through which the funds in the system's experience account to the debts of the system generated between 1988 and 2009.

Present law for LASERS (R.S. 11:102.1) requires that the first $50 million in excess returns above the system's actuarially assumed rate of return are to be applied to the system's OAB.

Proposed law requires the system to apply the greater of the following to the system's OAB:

(1) The first $50 million in excess returns above the system's actuarially assumed rate of return as required by present law.

(2) An amount equal to 50% of any excess returns the system achieves above its actuarially-assumed rate of return and below 10%.

Present law for LASERS further requires that the next $50 million in excess of that paid to the system's OAB pursuant to present law shall be applied to the system's EAAB. Proposed law requires the system to apply the greater of the following to the system's EAAB:

(1) The next $50 million in excess of that paid to the system's OAB as provided by present law.

(2) Any remaining amounts left after application to the system's OAB as provided in proposed law that are below an actuarial rate of return of 10%.

Present law for LASERS requires the amortizaton base to be reamortized after application of funds. Proposed law retains present law.

Present law for TRSL (R.S. 11:102.2) requires that the first $100 million in excess returns above the system's actuarially assumed rate of return are to be applied to the system's OAB.
Proposed law requires the system to apply the greater of the following to the system's OAB:

(1) The first $100 million in excess returns above the system's actuarially assumed rate of return as provided by present law.

(2) An amount equal to 50% of any excess returns the system achieves above its actuarially assumed rate of return and below 10%.

Present law for TRSL further requires that the next $100 million in excess of that paid to the system's OAB pursuant to present law shall be applied to the system's EAAB.

Proposed law requires the system to apply the greater of the following to the system's EAAB:

(1) Present law's requirement of the next $100 million in excess of that paid to the system's OAB.

(2) Any remaining amounts left after application to the system's OAB as provided in proposed law that are below an actuarial rate of return of 10%.

Present law for TRSL requires the amortization base to be reamortized after application of funds. Proposed law retains present law.

(Amends R.S. 11:102(B)(3)(d)(vi) and (viii), 102.1(B)(4) and (C)(4), 102.2(B)(4) and (C)(4), 542(A)(2), 883.1(A)(2), 1145.1(A)(1), and 1332(A)(1))