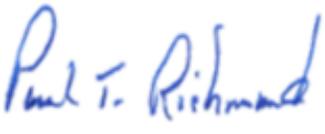


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 38**

<p>House Bill 38 HLS 14RS-295 Original (Revised)</p> <p>Author: Representative J. Kevin Pearson</p> <p>Date: April 8, 2014</p> <p>LLA Note HB 38.01</p> <p>Organizations Affected: State Retirement Systems</p> <p>OR DECREASE APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 38 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/STATE SYSTEMS: Provides relative to retirement eligibility for certain members of state retirement 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	Decrease
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.

Actuarial Cost (Savings) to:	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
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	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

**2014 REGULAR SESSION
ACTUARIAL NOTE HB 38**

Bill Information:

Current Law

Current law pertaining to the Louisiana State Employees' Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), and the Louisiana School Employees' Retirement System (LSERS), generally provides that non-hazardous duty members may retire at age 60 with 5 years of service.

Proposed Law

HB 38 will change the age at which non-hazardous duty members of LASERS, TRSL, and LSERS may retire from age 60 with five years of service to age 62 with five years of service. This change will apply to members first employed on or after July 1, 2014.

Implications of the Proposed Changes

The normal retirement age will be increase from age 60 to age 62 for non-hazardous duty state employees first hired on or after July 1, 2014.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Ultimately when the three retirement systems have matured so that there are no active members who were first employed before July 1, 2014, normal costs will be significantly reduced as a result of the enactment of HB 38.

Retirement System	Total Normal Cost		Increase / (Decrease) in Total Normal Cost and in Employer Normal Cost
	Age 60 with 5 Years of Service	Age 62 with 5 Years of Service	
LASERS	\$ 200,000,000	\$ 184,000,000	\$ (16,000,000)
TRSL	407,000,000	376,000,000	(31,000,000)
LSERS	49,000,000	47,000,000	(2,000,000)
Total	\$ 656,000,000	\$ 607,000,000	\$ (49,000,000)

Employee contributions account for \$499 million of the total normal cost. Therefore, the employer normal cost under HB 38 will be \$108 million; and the employer normal cost under current law is \$157. The conclusion is that the cost of the proposed plan for members first employed on or after July 1, 2014, will be only 2/3 the cost of the plan that would be in effect if HB 38 is not enacted.

Complete realization of these savings will not occur for many years. Decreases in employer contribution requirements will begin in FYE 2016. Cost reduction will be minimal at first, but will gradually increase as new members replace old members.

Other Post Retirement Benefits

Actuarial costs associated with post-employment benefits other than pensions will be reduced by HB 38. A later retirement date reduces the number of years for which a retiree will be eligible for post-employment benefits.

Analysis of Fiscal Costs

HB 38 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will decrease during the five year fiscal measurement period. Initially the decrease will be very small. The decrease will become increasingly larger each year thereafter.
2. Expenditures from LASERS, TRSL and LSERS (Agy Self-Generated) will not change during the five year measurement period because no new members will be eligible to retire in that period.
3. Expenditures from Local Funds will decrease during the five year fiscal measurement period. Initially the decrease will be very small. The decrease will become increasingly larger each year thereafter.

Revenues:

- LASERS, TRSL and LSERS revenues (Agy Self-Generated) will decrease during the five year measurement period. Initially the decrease will be very small. The decrease will become increasingly larger each year thereafter.

**2014 REGULAR SESSION
ACTUARIAL NOTE HB 38**

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in HB 38 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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 to render the actuarial opinion contained herein.

Dual Referral:

Senate

- 13.5.1: Annual Fiscal Cost \geq \$100,000
- 13.5.2: Annual Tax or Fee Change \geq \$500,000

House

- 6.8(F)(1): Annual Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq \$500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000