2014 REGULAR SESSION
ACTUARIAL NOTE HB 42

House Bill 42 HLS 14RS-385 Engrossed **Author: Representative J. Kevin Pearson** **Date: March 24, 2014** **LLA Note HB 42.02** **Organizations Affected: Louisiana School Employees' Retirement System** **EG DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 42 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/SCHOOL EMPS: Provides for application of remaining funds in the La. School Employees' Retirement System's experience account, after payment of a permanent benefit increase to eligible retirees and beneficiaries, to specified debt of the system.

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	$18,126,380
Revenues	$18,126,380

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:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	$0
Total	Decrease

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

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	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	See Below	See Below	See Below	See Below	See Below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	8,583,530	6,213,467	3,736,752	1,148,584	(1,556,052)	18,126,280
Annual Total	$ 8,583,530	$ 6,213,467	$ 3,736,752	$ 1,148,584	$ (1,556,052)	$ 18,126,280

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	8,583,530	6,213,467	3,736,752	1,148,584	1,556,052	18,126,280
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	$ 8,583,530	$ 6,213,467	$ 3,736,752	$ 1,148,584	$ 1,556,052	$ 18,126,280

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<u>Bill Information:</u>

Current Law

Current law requires a specified portion of investment gains to be transferred from the Regular Benefit Account to the Experience Account. However, current law does not permit a permanent benefit increase (PBI) to be granted without the completion of a significant legislative approval process that includes the introduction of a bill, passage by the House and Senate by a 2/3 vote, and a signature by the governor (see Actuarial Data, Methods, and Assumptions below). If a PBI is granted, an amount equal to the actuarial present value of the PBI is transferred from the Experience Account back to the Regular Benefit Account to offset the additional liability incurred by the system. Any amount in the Experience Account after this transaction remains in the Experience Account for potential later use.

Proposed Law

HB 42 provides that if a PBI is granted in accordance with the PBI formula and eligibility requirements already specified in current law, then any amount in the Experience Account remaining after such PBI grant shall be transferred back to the Regular Benefit Account and used to reduce the balance of the 2001, 2002, and 2003 charge bases. The outstanding balances of these three charge bases will be combined and then reduced by the amount that remains in the Experience Account after the PBI grant. The new amortization base shall be amortized with level payments over 25 years with the last payment due for FYE 2039.

Implications of the Proposed Changes

Assets remaining in the Experience Account after a PBI is granted will be used to reduce and re-amortize a portion of the LSERS unfunded account liability.

<u>Cost Analysis:</u>

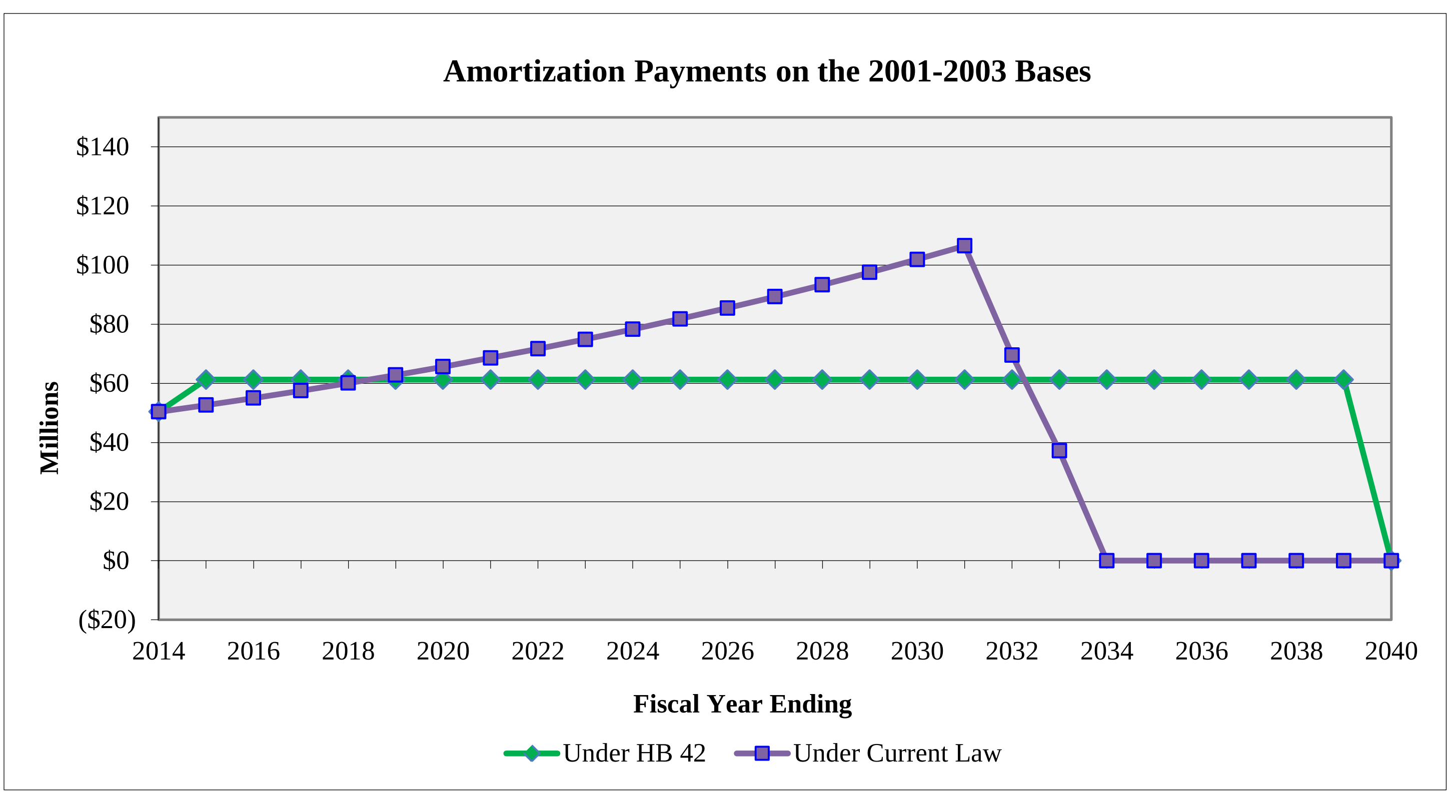
Analysis of Actuarial Costs

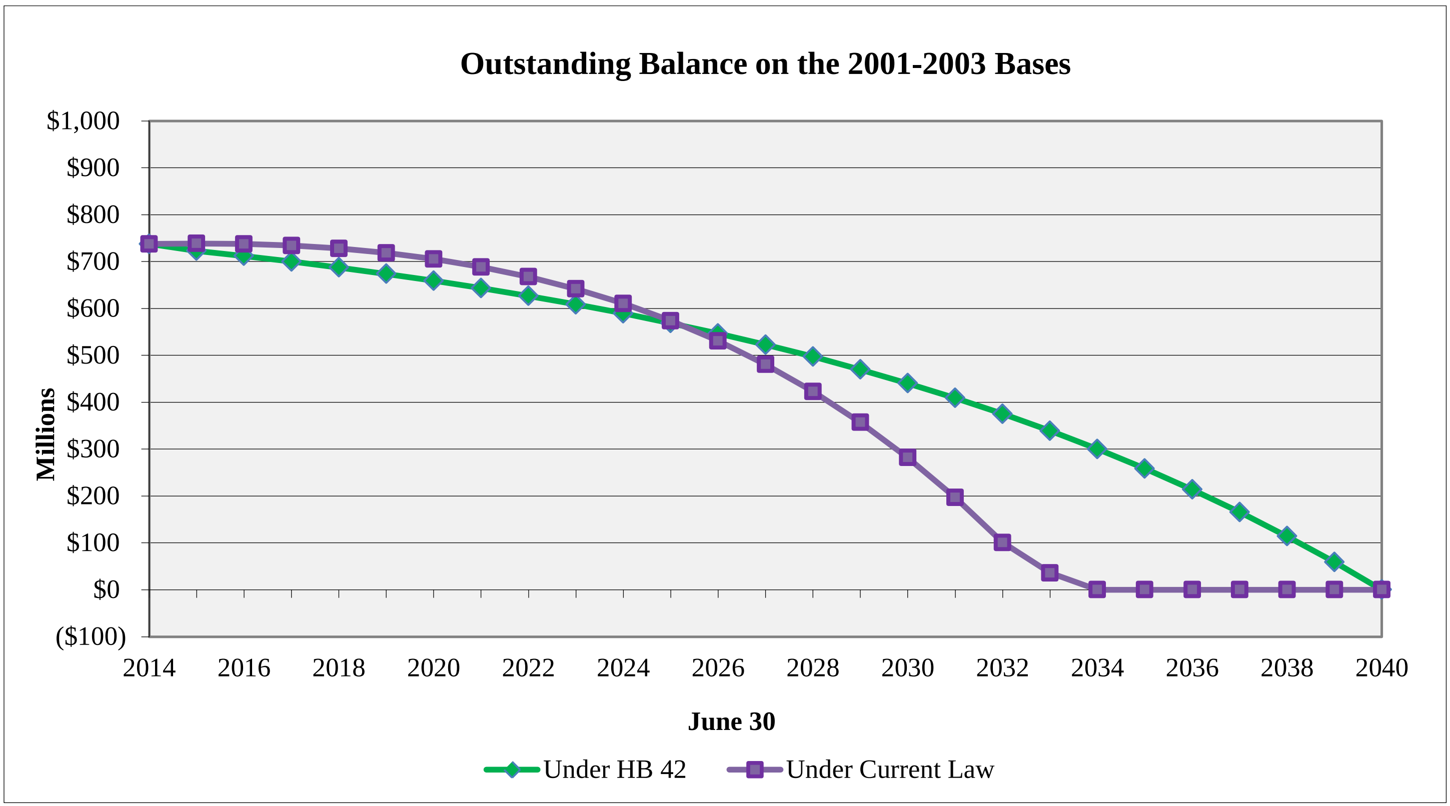
Retirement Systems

The PBI formula provides for a 1.5% permanent benefit increase. If the legislature approves the PBI, then the balance in the Experience Account after the PBI is granted is estimated to be about $15.8 million.

Balance in the Experience Account on July, 1, 2013	$ 31,668,697
Present Value Cost of a 1.5% Permanent Benefit Increase	15,862,663
Remaining Balance in the Experience Account	15,806,034

HB 42 requires the $15.8 million amount to be transferred back to the Regular Benefit Account and used to reduce the outstanding balance of the merged charge base originally established in 2001, 2002, and 2003. HB 42 also specifies that amortization payment schedule for this base is to be re-amortized over the period beginning June 30, 2014 and ending June 30, 2039. The amortization schedule before and after enactment of HB 42 is shown below.





As a result of HB 42, interest payments on the 2001, 2002 and 2003 debt will increase $228.2 million.

Amortization payments over the five year fiscal measurement period with enactment of HB 42 are compared below with amortization payments under current law.

Increase in Amortization Payments over the 5-Year Measurement Period

FYE	Current Law	HB 42	Increase/Decrease
2015	52,668,065	61,251,595	8,583,530
2016	55,038,128	61,251,595	6,213,467
2017	57,514,843	61,251,595	3,736,752
2018	60,103,011	61,251,595	1,148,584
2019	62,807,647	61,251,595	(1,556,052)
Total	**288,131,694**	**306,257,974**	**18,126,280**

There is no guarantee that future PBI legislation will follow the eligibility criteria or formulas contained in current law that until now has been subject to a substantively automatic approval process. Nor is there any guarantee, that PBIs in the future will even be based on the balance in the Experience Account. However, as long as the Experience Account is in law, it is likely that the balance in the Experience Account will have some influence on the size of any PBI given. It is also likely that enactment of HB 42 will delay and perhaps limit the size of the next PBI grant given by the legislature.

Therefore, we conclude that the actuarial present value of future benefits will be reduced as a result of HB 42.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 42 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 42 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from LSERS (Agy Self-Generated) will decrease because the balance in the Experience Account has been reduced. However, the sum of all such reductions, whenever they occur, will not exceed $15.8 million

2. Expenditures from the Local Funds will, in general, change in accordance with the table shown above.

Revenues:

- LSERS revenues (Agy Self-Generated) will, in general, change in accordance with the table shown above.

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. The actuary signing this note may or may not agree with or endorse these assumptions. He is using this data, methods and assumptions to provide consistency with the actuary for the retirement systems who may also be providing testimony to the Senate and House retirement committees.

Article 10(29)(F), enacted by the legislature and the voters in 2010, states "Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment. No such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature." Based on our reading of the amendment, our discussions with General Council for the LLA, and our discussions with legislative staff, we have concluded for the purposes of this actuarial note, that future transfers of investment gains to the Experience Account will occur until the balance in the Experience Account is equal to the cost of a 6% benefit increase for eligible retirees. However, because future COLA grants will require the introduction of a bill, approval by two-thirds of the House and Senate, and the signature of the governor, we assume that COLA grants are ad hoc, and are not automatic

Actuarial Caveat

There is nothing in this bill that has or 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 necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate		House	
x	13.5.1: Annual Fiscal Cost ≥ \$100,000	x	6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
	13.5.2: Annual Tax or Fee Change ≥ \$500,000		6.8(F)(2): Annual State Revenue Reduction ≥ \$500,000
			6.8(G): Annual Tax or Fee Change ≥ \$500,000