2014 REGULAR SESSION
ACTUARIAL NOTE SB 14

Senate Bill 14 SLS 14RS-206
Reengrossed with Senate Finance Committee Amendment #1316

Author: Senator Elbert L. Guillory

Date: March 26, 2014

LLA Note SB 14.03

Organizations Affected:
Louisiana School Employees' Retirement System

RE +$4,613,318 FC LF EX

The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 14 provides compliance with the requirements of R.S. 24:521.

Paul T. Richmond

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<u>Bill Header:</u> SCHOOL EMPLOYEES RET. Provides for the determination of system liabilities and the payment therefor. (6/30/14)

<u>Cost Summary:</u>

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	$ 15,079,763
Revenues	$ 15,079,763

<u>Estimated Actuarial Impact:</u>

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:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

<u>Estimated Fiscal Impact:</u>

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	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	560,926	3,359,317	4,613,318	4,267,894	2,278,308	15,079,763
Annual Total	$ 560,926	$ 3,359,317	$ 4,613,318	$ 4,267,894	$ 2,278,308	$ 15,079,763

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	560,926	3,359,317	4,613,318	4,267,894	2,278,308	15,079,763
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	$ 560,926	$ 3,359,317	$ 4,613,318	$ 4,267,894	$ 2,278,308	$ 15,079,763

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Bill Information:

Current Law

Current law provides that changes in the actuarial accrued liability for the Louisiana School Employees' Retirement System (LSERS) resulting from actuarial gains and losses, changes in the method of valuing of assets, changes in actuarial assumptions, and changes in actuarial funding methods, shall be amortized with level payments over a 30 year period. However, exceptions were made for certain liability changes in FYE 2001, FYE 2002 and FYE 2003. These changes in liability were amortized over a 30 year period with payments increasing 4.5% a year.

Proposed Law

SB 14 will require all existing outstanding balances as of June 30, 2014, to be re-amortized with level payments over a 30-year period beginning with the payment for FYE 2015 and ending with the payment for FYE 2044. It does not pertain to bases created after June 30, 2014.

Implications of the Proposed Changes

SB 14 will re-amortize the June 30, 2014, unfunded accrued liability with level payments over a 30-year period.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 14 does not contain any benefit provision with an actuarial cost.

SB 14 will change the pattern of paying off the Unfunded Actuarial Liability. The unfunded actuarial liability will be paid off earlier under current law than under proposed law. Under SB 14, contributions received from participating employers to amortize the unfunded liability are larger for the first five years. However, interest paid over the entire amortization period will be greater than the interest paid under current law. The table below summarizes the 5-year period and long term effect of SB 14.

Amortization of the Outstanding Bases as of June 30, 2014

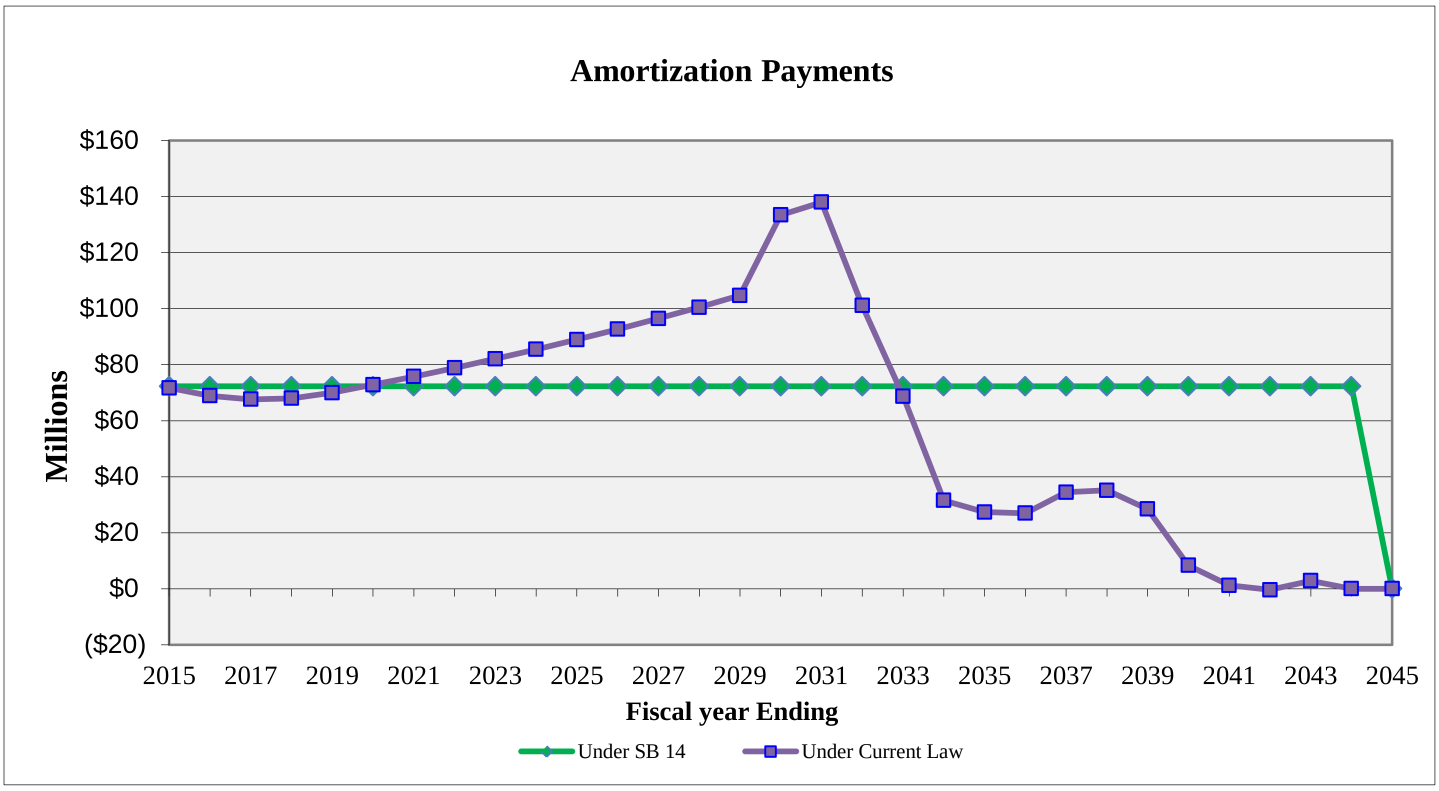
	Under Current Law	Under SB 14	Increase/Decrease
Unfunded Amortization Bases (UAB)	$ 905,696,580	$ 905,696,580	$ 0
Interest Payment to Pay off UAB	955,679,314	1,261,950,225	306,270,911
Total Payments	1,861,375,894	2,167,646,805	306,270,911

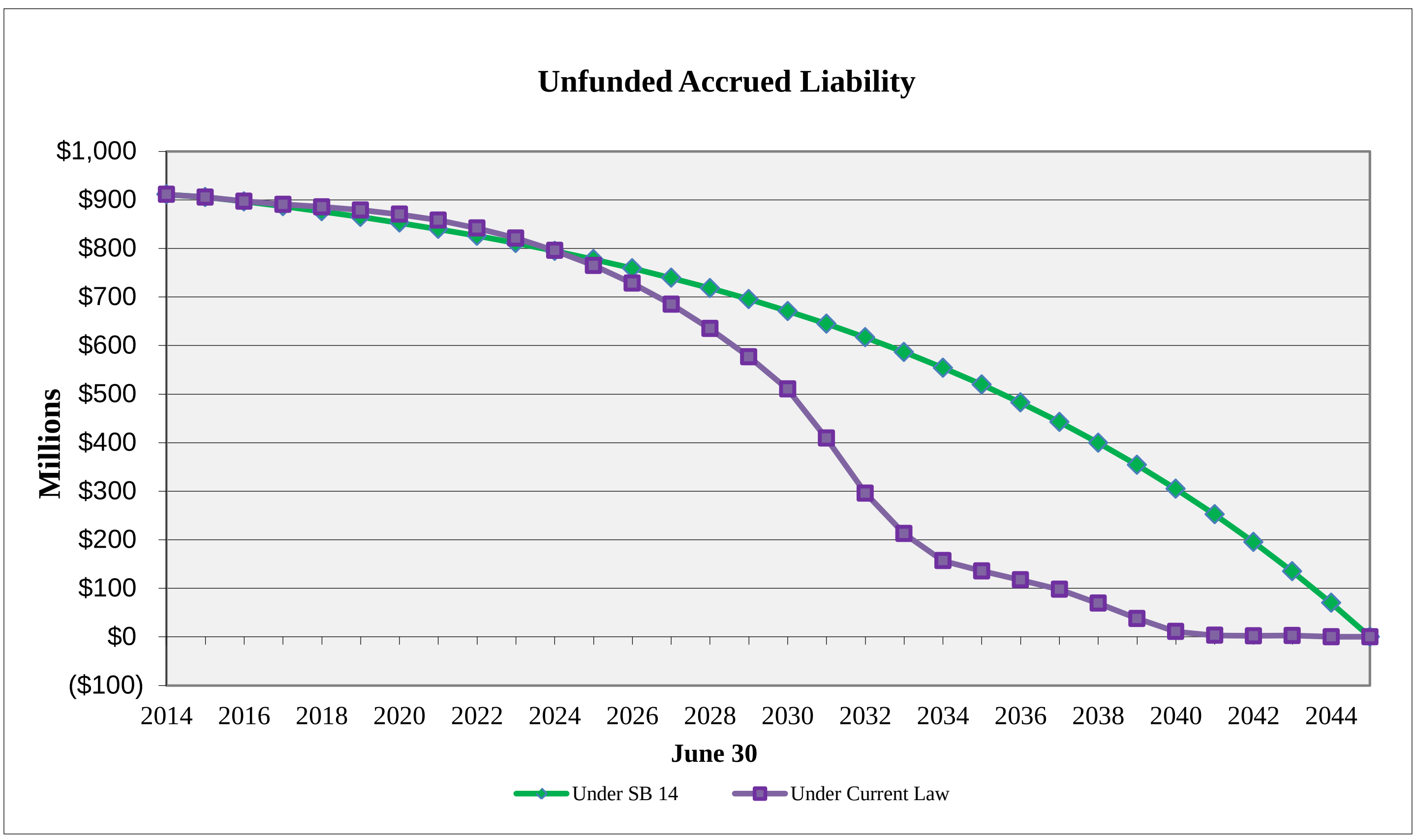
Changes in employer contribution requirements over the five year period following the 2014 legislative session are shown below:

Increase in Amortization Payments over the 5-Year Measurement Period

FYE	Current Law	SB 14	Increase/Decrease
2015	$ 71,693,968	$ 72,254,893	$ 560,926
2016	68,895,577	72,254,893	3,359,317
2017	67,641,576	72,254,893	4,613,318
2018	67,987,000	72,254,893	4,267,894
2019	69,976,586	72,254,893	2,278,308
Total	$ 346,194,706	$ 361,274,467	$ 15,079,762

Amortization costs and the unfunded accrued liability over the entire amortization period will change as shown in the following graphs.





Other Post-Employment Benefits

There are no actuarial costs or savings associated with SB 14 for other post-employment benefits.

Analysis of Fiscal Costs

SB 14 will have the following effect on fiscal costs:

Expenditures:

- Local Fund expenditures will increase because employer amortization payments will increase during the five year measurement period.

Revenues:

- LSERS revenues will increase because employer amortization payments will increase during the five year measurement period.

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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 also may be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in SB 14 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 necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate	House
[x] 13.5.1: Annual Fiscal Cost ≥ \$100,000	[ ] 6.8(F)(1): Annual State 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