2013 REGULAR SESSION
ACTUARIAL NOTE HB 90

House Bill 90 HLS 14RS-705 Original **Author: Representative Regina A. Borrow** **Date: March 26, 2014** **LLA Note HB 90.01** **Organizations Affected:** **State Retirement Systems** **OR SEE BELOW FC GF EX**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 90 provides compliance with the requirements of R.S. 24:52** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/FUNDING: Requires occasional supplemental payments to retirees and beneficiaries of the four state retirement systems from monies available from the Seniors' Supplemental Fund

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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 to Retirement Systems and OGB	$0
Total Five Year Fiscal Cost	
Expenditures	See Below
Revenues	See Below

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

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. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	See Below	See Below	See Below	See Below	See Below
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	0	See Below	See Below	See Below	See Below	See Below
Annual Total	$ 0	See Below	See Below	See Below	See Below	See Below

REVENUES	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**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	0	0	0	0	0	0
Annual Total	$ 0	See Below	See Below	See Below	See Below	See Below

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<u>Bill Information:</u>

Current Law

Current law provides for the establishment of four retirement systems for teachers, school employees, and officials and employees of the state. The four systems are the Louisiana State Employees Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), Louisiana School Employees Retirement System (LSERS), and the State Police Retirement System (STPOL).

Proposed Law

HB 88 provides for a constitutional amendment that would require the creation of the Seniors' Supplemental Fund within the state treasury and provide a source of revenue for the fund. The purpose of the SSF is to provide for occasional supplemental payments to eligible retirees and beneficiaries of the state retirement systems.

HB 90 provides the following benefit and administrative procedures pertaining to the SSF.

1. The fund shall be created as a special treasury fund and shall reside as part of the General Fund.

2. The sources of revenue for the SSF are summarized below:

    a. 10% of specifically identified non-recurring revenue of the state.
    b. Appropriations.
    c. Investment earnings on the balance in the fund.
    d. Revenues from any other source.

3. The fund will be invested in the same manner as dollars in the General Fund are invested. Investment earnings on the fund shall be deposited into the SSF.

4. Dollars may be withdrawn from the SSF only for occasional supplemental payments and administrative expenses. Withdrawals, transfers or appropriations from the SSF for any other purpose are prohibited.

5. A supplemental payment from the Fund is prohibited from being interpreted as constituting a retirement benefit.

6. Each state retirement system must provide the Public Retirement System's Actuarial Committee (PRSAC) an estimate of the cost of providing a supplemental payment (minimum $300 per fiscal year) to each eligible retiree and beneficiary, as well as the cost to administer the program, at the same meeting at which the systems' official valuations are adopted.

7. After receiving the SSF balance from the treasury and the estimated cost to provide supplemental benefits from the retirement systems, PRSAC is required to adopt findings regarding the feasibility of providing supplemental benefits.

8. Proposed law requires the chairman of PRSAC to notify the members of both houses of the legislature if the committee finds that the fund balance is sufficient to provide for a supplemental payment. If PRSAC has provided such notification, the legislature is required to appropriate monies from the fund in the next fiscal year for the provision of a supplemental payment in an amount equal to or greater than the minimum amount established under proposed law.

Implications of the Proposed Changes

HB 90 requires the establishment of the Seniors' Supplement Fund to provide for supplemental benefits to eligible retirees and beneficiaries of the four state retirement systems. Such benefits are prohibited from being interpreted or construed as retirement benefits. The fund is maintained and managed as part of the General Fund of the state treasury.

HB 90 requires the four state systems to annually present PRSAC with an estimate of the cost to provide supplemental payments to eligible retirees and beneficiaries. PRSAC will deliberate on this matter at the same meeting at which the systems' official valuations are adopted. The balance of the Seniors' Supplemental Fund must be sufficient to support any payments approved by PRSAC.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

SB 90 does not increase the actuarial or fiscal costs of the state retirement systems.

SB 90 does not designate the entity that will administer payment to retirees and beneficiaries. For the purpose of this actuarial note, we assume an amount equal to the cost of the supplemental payment plus administrative expenses will be extracted from the SSF and temporarily deposited with the retirement systems. The retirement systems will merely be a conduit for these payments. Deposits from the SSF and payment to retirees and beneficiaries will not be considered revenues or expenditures of the retirement systems.

The cost of the minimum supplemental benefit is $300 x the number of retirees and beneficiaries. The number of retirees and beneficiaries, not in DROP, as of June 30, 2013, is shown below. The estimated cost to provide the minimum supplemental payment is also shown.

Retirement System	Retirees and Beneficiaries*	Cost to Provide the Minimum Payment
LASERS	45,425	13,627,500
TRSL	71,031	21,309,300
LSERS	13,369	4,010,700
STPOL	1,234	370,200
Total	131,059	39,317,700

∗ HB 90 does not specify whether members of DROP are entitled to the supplemental payment. We have assumed they are not entitled because they are working and earning a salary.

Therefore, the balance in the SSF would have to reach almost $40 million before the initial supplemental payment could be made.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 90 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 90 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase if and when the balance in the SSF equals or exceeds an amount equal to $300 per retiree and beneficiary of the state retirement systems. At that time, General Fund expenditures will be equal to about $40 million based on the number of retirees and beneficiaries on June 30, 2013.

2. State retirement system expenditures (Agy Self-Generated) will increase to pay for costs associated the administration of SSF benefit payments.

3. Local Fund expenditures will not change.

Revenues:

- State retirement system revenues (Agy Self-Generated) will increase from the SSF to completely offset increased administrative costs.

Based on information provided by the retirement systems, the cost to administer each supplemental benefit payment is estimated to be about $65,000.

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 90 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