


**2014 REGULAR SESSION  
ACTUARIAL NOTE SB 555**

<p>Senate Bill 555 SLS 14RS-340 Original Revised</p> <p>Author: Senator Dan W. "Blade" Morrish</p> <p>Date: April 14, 2014</p> <p>LLA Note SB 555.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR +\$21,690,000 FC LF EX</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 555 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** TEACHERS RETIREMENT. Provides for reemployment following retirement. (2/3-CA10s29(F)) (6/30/14)

**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	Increase
Total Five Year Fiscal Cost	
Expenditures	\$86,755,406
Revenues	Increase

**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.

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

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	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	15,406	21,690,000	21,690,000	21,690,000	21,690,000	86,775,406
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	\$ 15,406	Increase	Increase	Increase	Increase	Increase

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	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase

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### **Bill Information:**

#### **Current Law**

Current law prohibits any retiree of the Teachers' Retirement System of Louisiana (TRSL) from receiving a retirement benefit while reemployed, subject to certain exceptions. The benefit of a reemployed retiree is suspended for the duration of reemployment.

#### **Proposed Law**

SB 555 adds retirees who have attained the age of 65 to the exceptions of those authorized for reemployment under current law.

#### **Implications of the Proposed Changes**

SB 555 will allow retirees of TRSL who have attained the age of 65 to return to work without being subject to a suspension of benefits.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

##### **Retirement Systems**

SB 555 contains benefit provisions having an actuarial cost.

Currently, 34 retirees of TRSL age 65 and older who do not qualify as a "retired teacher," are actively working and who have had their entire retirement benefit suspended. There are 135 retirees age 65 and older who qualify as a "retired teacher" who are actively working and have had their benefit suspended under the 25% rule. If SB 555 is enacted, benefit payments to these retirees will resume. As a result, TRSL will pay out more in benefits that it is required to pay under current law.

If we assume the benefit suspended on average is \$10,000 a year, then the annual cost of SB 555 is \$1,690,000.

In addition, there are about 2,000 active teachers age 65 and older who have never retired. If SB 555 is enacted, it is likely that these teachers will retire immediately, begin to collect a pension, and still continue to work. The annual cost of SB 555 associated with these members of TRSL is about \$20 million, once again assuming the average pension that would be paid is only \$10,000.

The total annual cost (\$21,690,000) is a conservative estimate. The true cost is likely to be larger. The average pension benefit for TRSL is \$24,500, not \$10,000. If we had assumed the average suspended benefit was \$24,500 and the average benefit that would be payable to active teachers working after attaining age 65 was \$24,500, the annual cost of SB 555 would be about \$53 million.

##### **Other Post-Employment Benefits**

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from employee to retiree. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from an active status to a retired status. Therefore:

1. OGB revenues may increase or decrease as a result of SB 555.
2. Employer premium expenditures may increase or decrease as a result of SB 555.

#### **Analysis of Fiscal Costs**

SB 555 will have the following effect on fiscal costs over the next 5 years.

##### **Expenditures:**

1. Expenditures from the General Fund will increase to the extent members of TRSL who have attained the age of 65 are induced to retire earlier than they would have otherwise. Unanticipated TRSL expenditures will lead to higher employer contribution requirements.
2. Expenditures from TRSL (Agy Self-Generated) will increase \$21,690,000 a year in order to pay benefits that would otherwise have not been paid. Administrative expenses will increase \$15,406 in FYE 2015.

##### **Revenues:**

- TRSL revenues (Agy Self-Generated) will increase because employer contribution requirements will increase.

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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. 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 SB 555 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**

- 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 State 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