2014 REGULAR SESSION
ACTUARIAL NOTE HB 42

House Bill 42 HLS 14RS-385
Enrolled

Author: Representative J. Kevin Pearson
Date: May 13, 2014

LLA Note HB 42.04

Organizations Affected:
Louisiana School Employees' Retirement System

EN 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.

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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	$(16,421,553)
Revenues	$(16,421,553)

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

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	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	(829,284)	(3,627,675)	(4,881,676)	(4,536,252)	(2,546,666)	(16,421,553)
Annual Total	$ (829,284)	$ (3,627,675)	$ (4,881,676)	$ (4,536,252)	$ (2,546,666)	$ (16,421,553)

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	(829,284)	(3,627,675)	(4,881,676)	(4,536,252)	(2,546,666)	(16,421,553)
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	$ (829,284)	$ (3,627,675)	$ (4,881,676)	$ (4,536,252)	$ (2,546,666)	$ (16,421,553)

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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 is contingent upon the enactment of SB 14.

If SB 14 is enacted, the entire unfunded accrued liability of LSERS will be consolidated and re-amortized with level payments over a 30 year period. As a result, employer contribution requirements for employers participating in LSERS will increase by the following amounts over the next five year period.

Increase in Employer Contribution Requirements under SB 14

FYE	Dollar Increase
2015	$ 560,926
2016	3,359,317
2017	4,613,318
2018	4,267,894
2019	2,278,308
Total	$ 15,079,763

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 will be set aside in an "amortization conversion account." The account shall be used to pay for the dollar increases in amortization costs resulting from SB 14.

Implications of the Proposed Changes

Assets remaining in the Experience Account after a PBI is granted will be used to offset additional fiscal costs associated with the consolidation and re-amortization that will occur under SB 14.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

This actuarial note is based on the following interpretation of HB 42.

1. The actuary for LSERS will determine the unfunded accrued liability for LSERS as of June 30, 2014, and the stream of amortization payments that will exist according to existing law.

2. In accordance with SB 14, he will then combine all bases and re-amortize the entire UAL as of June 30, 2014, with level payments over 30 years.

3. The stream of payments under current law will be subtracted from the stream of payments under SB 14. This determines the extent to which SB 14 will cause contribution requirements to be higher than under current law.

4. HB 42 provides that funds in the Experience Account will be swept back into the regular pool of assets on June 30, 2014. The amount to be swept will be equal to the present value (using the 7.25% discount rate) of the stream of the contribution increases resulting from the enactment of SB 14.

5. The amount swept becomes an actuarial gain. This gain will be amortized with a stream of credits that are exactly equal to the stream of contribution increases created by SB 14 for FYE 2015, 2016, 2017, 2018, and 2019.

6. The balance in the Experience Account on June 30, 2013 minus the swept amount identified in item 4 above will also be swept from the Experience Account back to the regular asset pool. This amount will be amortized as a credit base and amortized with level credits over a 30 year period.

The actuarial present value of future benefit payments will decrease if HB 42 is enacted. Future PBI increases are likely to be smaller because funds available to offset the cost of future PBIs have been removed from the Experience Account.

HB 42 will produce contribution savings for employers participating in LSERS during each of the five years of the fiscal measurement period. The amount of savings produced by HB 42 in each of the five years of the fiscal measurement period will be more than sufficient to offset the increase in annual fiscal costs associated with SB 14. The net effect of SB 14 and HB42 combined will be a reduction in employer contributions.

FYE	Increase in Fiscal Costs Due to SB 14	Decrease in Fiscal Costs Due to HB 42	Net Savings
2015	$ 560,926	$ 829,284	$ 268,358
2016	3,359,317	3,627,675	268,358
2017	4,613,318	4,881,676	268,358
2018	4,267,894	4,536,252	268,358
2019	2,278,308	2,546,666	268,358
Total	**$ 15,079,763**	**$ 16,421,553**	**1,341,790**

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 Local Funds will decrease in accordance with the table shown above. The net effect of SB 14 and HB 42 combined will be a reduction in employer contribution requirements.

Revenues:

- LSERS revenues (Agy Self-Generated) will decrease 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. 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.

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 HB 42 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
☐ 13.5.1: Annual Fiscal Cost ≥ $100,000	☐ 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