2014 REGULAR SESSION
ACTUARIAL NOTE SB 2

Senate Bill 2 SLS 14RS-57 **Engrossed with House Retirement Committee Amendment #5364** **Author: Senator Page Cortez** **Date: May 19, 2014** **LLA Note SB 2.03** **Organizations Affected:** **Parochial Employees' Retirement System** **EG1 DECREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 2 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: PAROCHIAL EMPLOYEES RET. Provides for the prospective termination of a hospital district. (1/1/2015)

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	See Actuarial Analysis
Revenues	See Actuarial Analysis

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

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	See Below	See Below	See Below	See Below	See Below
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	See Below	See Below	See Below	See Below	See Below

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	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

2014 REGULAR SESSION
ACTUARIAL NOTE SB 2

<u>Bill Information:</u>

Current Law

Current law provides that an employer that is a hospital taxing district of a parish may elect to participate in the Parochial Employees' Retirement System (PERS).

Current law also provides that if a taxing district, branch or section of a parish terminates its participation in PERS, it must pay to PERS an amount equal to the unfunded accrued liability associated with its employees who will no longer be members of the system.

Proposed Law

SB 2 will permit a hospital service district within a parish with a population between 70,000 and 80,000 to terminate its participation in PERS for new employees hired by the employer after a specified future date. Employees of the employer who are participating in PERS on the specified date will continue to participate in PERS.

SB 2 provides that the employer shall pay PERS the portion of the unfunded actuarial accrued liability attributable to the prospective termination. This calculation will be made in accordance with the Entry Age Normal funding method.

Implications of the Proposed Changes

SB 2 will permit a participating employer of PERS to discontinue its participation in the system for its employees hired after a specified future date. It will require such employer to pay its share of the unfunded accrued liability, if any, associated with its decision to end its participation in the system relative to new members.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

No member of PERS will receive a larger benefit from PERS as a result of SB 2 than he or she would have received under current law. New employees of an employer electing to terminate from PERS under SB 2 will not be eligible to participate or receive any benefit from PERS. Therefore, the present value of future benefit payments to future members of PERS will be reduced. The present value of future contributions relative to future new members will be reduced an equivalent amount.

If an employer terminates its participation in PERS relative to new hires, the number of new participants joining the retirement system after the termination date will be reduced. Such reduction will generally result in higher costs for the remaining employers. The reasons are given below.

1. Increases in the Employer Contribution Rate

    a. Employer costs associated with PERS for a given year is an aggregation of costs for individual members that vary by gender, age, pay and service. Costs can vary significantly from member to member.

    b. The aggregation of costs for the current year will differ form costs for the subsequent year because some members will terminate employment and new members join the system.

    c. Members who join the retirement system in a given year are generally younger and significantly less costly than members already in the system, for members who have terminated, and for members who have retired during the year.

    d. Therefore, new hires tend to reduce the aggregate cost to participating employers of the retirement system.

    e. However, if an employer elects to terminate its participation in PERS for its younger and less costly new hires, the characteristics of the remaining participants will change and the change will generally accelerate contribution levels for the remaining members. As a result, contribution levels for entities that continue participation with PERS will increase with cost shifting from the terminating employer to the remaining employers.

2. Forfeitures of Employer Contributions

    a. A significant factor in the cost structure of a retirement system is the forfeiture of employer contributions.

    b. It is anticipated in the cost calculation that many of the employees who join PERS will terminate employment prior to becoming eligible for a benefit.

    c. Members who terminate without being eligible for a benefit receive a refund of their own contributions to PERS.

    d. However, contributions that have been made by the employer relative to these employees are retained by PERS.

e. New members who terminate employment within a few years after joining the system are a significant source of forfeitures.

f. Therefore, if an employer elects to terminate its participation in PERS, the number of new members will be reduce, the number of forfeitures will be reduced, and amounts forfeited to the system will be smaller.

3. Cost Shifting

a. PERS is funded according to the Aggregate funding method and, as a result, has no unfunded accrued liability. All legacy gains and losses are included in the normal cost calculation.

b. PERS has accumulated a significant net legacy loss. Under the Aggregate funding method, this loss is allocated to all members of the system including new members.

c. SB 2 eliminates a source of new members. Legacy costs will be allocated over fewer members. It is likely that employer contribution rates for all employers will increase. However, the payroll for all employers continuing to participate will not change. As a result, the dollar cost for non-terminating entities will increase. The terminating employer will have effectively transferred a portion of its legacy cost to all other entities participating in PERS.

In light of the above discussion, we draw the following conclusions:

1. SB 2 does not contain any benefit provisions with an actuarial cost.

2. Employer contribution rates are likely to increase. However, because payroll for non-terminating employers remain the same, dollar cost for non-terminating employer will increase.

3. The dollar cost for the terminating entity will decrease because it will have lowered the payroll to which the employer contribution rate applies.

4. The present value of future benefit payments by PERS relative to future members will decrease. The present value of future employer contributions to PERS for future members will decrease.

5. The present value of future benefit payments by PERS relative to existing members does not change. The present value of future employer contributions to PERS for existing members does not change.

6. Based on future demographics of the entities that continue to participate in PERS and those that terminate participation, some cost shifting is likely to occur from the employers that terminate to employers who do not.

Other Post-Employment Benefits

The effect of SB 2 on other post-employment benefit (OPEB) costs depends on OPEB arrangements made by each participating employer in PERS. We were unable to obtain this information.

Analysis of Fiscal Costs

SB 2 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. There will be relative minor changes in expenditures from Local Funds over the five year measurement period. First, a participating entity has to elect to cease participation for new employees. Second, the number of new employees for a terminating entity is likely to be relatively small during the five year measurement period. Any increase in dollar contributions to the retirement system from employers is not likely to exceed $100,000 over the three year period immediately following the 2014 legislative session.

2. Expenditures from PERS are likely to decrease. If an employer elects to terminate its participation in PERS, new hires of the employer will not join the system. Refunds of employee contributions to these new hires upon their termination of employment will not occur.

Revenues:

- There will be relative minor changes in PERS revenues over the five year measurement period. Any decrease in revenues is not likely to exceed $100,000 over the three year period immediately following the 2014 legislative session.

<u>Actuarial Data, Methods and Assumptions</u>

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by PRSAC.

<u>Actuarial Caveat</u>

There is nothing in SB 2 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 Revenue Reduction ≥ $100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ $500,000