


**2015 REGULAR SESSION
ACTUARIAL NOTE HB 43**

<p>House Bill 43 HLS 15RS-182 Original</p> <p>Author: Representative Harvey LeBas Date: April 27, 2015</p> <p>LLA Note HB 43.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR FC +\$23,000,000 SG EX</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 43 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/TEACHERS: Increases the salary cap in the Teachers' Retirement System of Louisiana retire-rehire law for retirees employed as substitute classroom teachers

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	Increase
Total Five Year Fiscal Cost	
Expenditures	\$ 207,025,326
Revenues	\$ 92,012,663

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 to:</u>	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	Increase
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 the retirement systems and other government entities.. 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	2015-16	2016-17	2017-18	2018-19	2019-2020	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	23,012,663	23,000,000	23,000,000	23,000,000	23,000,000	115,012,663
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	23,012,663	23,000,000	23,000,000	23,000,000	92,012,663
Annual Total	\$ 23,012,663	\$ 46,012,663	\$ 46,000,000	\$ 46,000,000	\$ 46,000,000	\$ 207,025,326

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-2020	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	23,012,663	23,000,000	23,000,000	23,000,000	92,012,663
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	\$ 23,012,663	\$ 23,000,000	\$ 23,000,000	\$ 23,000,000	\$ 92,012,663

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Bill Information:

Current Law

As a general rule under current law, the pension benefit of any retired member of the Teachers' Retirement System of Louisiana (TRSL) who is re-employed in a position covered by TRSL membership is suspended while the retiree is re-employed. Current law provides that a retired member who returns to employment as a substitute classroom teacher who teaches any student in pre-kindergarten through 12th grade is exempt from the general rule. The following conditions are imposed on such a re-employed retired teacher.

1. "Substitute classroom teacher" is defined as a classroom teacher employed in a temporary capacity to fill the position of another classroom teacher who is unavailable to teach for any reason.
2. Employment earnings as a substitute classroom teacher may not exceed 25% of the re-employed retiree's pension benefit. This limit is imposed for by fiscal year.
3. Once a retiree, re-employed as a substitute classroom teacher, has employment income that exceeds the earnings limitation, TRSL suspends the retiree's pension benefits for the rest of the fiscal year. TRSL will recover from such a retiree any amount it has paid to him that exceeds 25% of his pension.
4. The retiree's pension will resume at the beginning of the next fiscal year and the suspension process will be repeated for that year.

Proposed Law

Under HB 43, the earnings limitation for a retiree reemployed as substitute classroom teachers will be 50% of his pension benefit.

Implications of the Proposed Changes

HB 43 increases the earnings limitation from 25% to 50% for a re-employed retiree of TRSL reemployed as substitute classroom teacher.

Cost Analysis:

Analysis of Actuarial Costs

HB 43 contains benefit provisions having an actuarial cost.

Retirement Systems

There are two cost components associated with HB 43.

1. The increased cost associated with TRSL paying benefits to a substitute classroom teacher who earns more than 25% of his pension benefit.
2. The increased cost associated with an expansion of the pool of teacher willing to return to work as a substitute classroom teacher and the related cost associated with teachers being induced to retire earlier than they would have otherwise and then returning to work as a substitute classroom teacher.

For the purpose of this analysis, we have assumed the following:

1. The average pension benefit is \$25,000 a year.
2. The average annual salary for a retiree who returns to work on a full time basis is \$60,000 a year.
3. If there were no earnings limitation, the average retiree who returns to work would work half time and have a total income of \$55,000 (\$30,000 of employment income and a \$25,000 pension).

Item 1 Cost

According to TRSL, 45 retirees returned to work as a substitute classroom teacher during FYE 2014 and exceeded the earnings limit. 524 retirees returned to work as a substitute classroom teacher during FYE 2014 but did not exceed the earnings limit.

1. The annual cost to expand the earning limit from 25% to 50% for the 45 that exceeded the limit is estimated to be \$281,250 per year. This is based on the following:

$$\text{Annual Cost} = 45 \text{ retirees} \times (50\% \text{ new limit} - 25\% \text{ current limit}) \times \$25,000 \text{ pension} = \$281,250$$

2. Under current rules, we assume that re-employment income for all 524 retirees was equal to 25% of their pension. But, if the limit is increase, these retirees will increase their re-employment income to 50% of their pension benefit. The cost is therefore estimated to be \$3,275,000 per year as shown below

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Annual Cost = 524 retirees x (50% new limit - 25% current limit) x \$25,000 pension = \$3,275,000

3. The total cost for Item 1 is estimated to be \$3,556,250, or about \$3.5 million a year.

Item 2 Cost

Prior to 2000, pension benefits were suspended for re-employed retirees. Regardless, about 3,500 retirees elected to return to work. The law was then changed eliminate the suspension of benefits. By 2010, the number of re-employed retirees had increased to 7,500.

Act 921 of the 2010 session restored benefit suspension rules to TRSL. However, the following exceptions were made:

1. A retiree who returned to active service as a classroom teacher in a critical teacher shortage area. Pension benefits would be suspended if re-employment earnings exceeded 25% of pay.
2. A retiree who was re-employed as a full time certified speech therapist, speech pathologist, or audiologist in any school district where a shortage of persons to fill such positions exists. Pension benefits were not suspended.
3. A retiree who returned to active service on or before June 30, 2010. Pension benefits were not suspended.

Annual savings associated with Act 921 were estimated to reach \$108,000,000 within five years. The number of re-employed retired teachers has decreased significantly since 2010. Even though suspension of benefit rules have been relaxed to some extent from 2011 through 2014, the number of re-employed retirees has decreased to about 5,000 a year and is still falling. The savings predicted in the actuarial note for Act 921 have been generally realized.

Currently, a retiree who returns to work as a substitute classroom teacher can work full time and collect 25% of his pension from TRSL. Under HB 43, a retiree can work full time and collect 50% of his pension. This increase will encourage teachers to retire earlier than they would have otherwise. As a teacher considers his retirement options, he may not be willing to retire and return to work when his pension is reduced to only 25% of the full amount. However, a teacher may very well be willing to retire if he can receive 50% of his pension while working. Therefore, it is quite likely that HB 43 will induce teachers to retire earlier than they would have otherwise.

The development of the cost per teacher induced to retire early is summarized below:

1. Such a teacher will receive 50% of his pension that he would not have received otherwise.
2. The average pension is \$25,000 a year.
3. The teacher that retires one year earlier than otherwise will collect a \$12,500 more in a year than he would have if HB 43 is not enacted.

If each year, there are 2,000 teachers who have returned to work because they were induced to retire, the cost associated with the inducement aspects of HB 43 are estimated to be \$25 million a year.

Total Annual Cost

The total cost for HB 43 as analyzed above is estimated to be about \$28.5 million a year. To ensure that costs have not been overstated, we have reduced our estimate to \$23 million a year.

Other Post-Employment Benefits

HB 43 will induce teachers to retire earlier then they would have otherwise. If they retire one year early and a portion of the retiree health insurance premium is paid for by the school district, the annual cost for post-employment benefits other than pension will increase.

Analysis of Fiscal Costs

HB 43 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from TRSL (Agy Self Generated) will increase about \$23 million a year to pay pension benefits that would not otherwise have been paid.
2. Expenditures from Local Funds will increase about \$23 million a year because employer contribution requirements must increase to pay for the larger annual cost.
3. Expenditures from Local Funds will increase to the extent that school districts pay a portion of annual premiums for retiree health insurance.

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Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contributions must be larger to accommodate the estimated increase in costs.

According to TRSL, administrative costs associated with communicating the proposed legislation and making modifications to existing computer programs is estimated to be \$12,663 for FYE 2016.

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 adopted by PRSAC.

Actuarial Caveat

There is nothing in HB 43 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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 Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000