2015 REGULAR SESSION
ACTUARIAL NOTE HB 42

House Bill 42 HLS 15RS-172 Reengrossed with House Floor Amendment #3358 and House Floor Amendment #3588 **Author: Representative Sam Jones** **Date: May 27, 2015** **LLA Note HB 42.03** **Organizations Affected:** **State Retirement Systems** **RE INCREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 42 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT/COLAS: Authorizes payments funded by state retirement system experience accounts to certain retirees and beneficiaries of such systems

<u>Cost Summary:</u>

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	$350,825,090
Total Five Year Fiscal Cost	
Expenditures	See Analysis
Revenues	$0

<u>Estimated Actuarial Impact:</u>

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	$350,825,090
Other Post Retirement Benefits	$0
Total	$350,825,090

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.

<u>Estimated Fiscal Impact:</u>

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	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2019-2020**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2019-2020**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

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Bill Information:

Current Law

Current law provides a template set of provisions setting forth the conditions under which the boards of trustees for the Louisiana State Employees Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), the Louisiana School Employees' Retirement System (LSERS), and the Louisiana State Police Retirement System (STPOL) can grant a permanent benefit increase (PBI) or cost-of-living-adjustment (COLA). Templates for each system are nearly identical to one another. The legislature is under no obligation to follow the templates. It may approve a PBI in accordance with template law or it may provide a PBI that does not follow template law.

Current template law provides that a state retirement system may not grant a PBI for a fiscal year if a PBI had been granted the previous year. All four state systems granted a PBI effective July 1, 2014. Therefore, under template law, no PBI may be granted effective July 1, 2015 even though there are sufficient funds in the Experience Accounts to do so.

Proposed Law

HB 42 provides that a 1.5% PBI will be granted to all retirees and beneficiaries eligible under template law, effective June 30, 2015.

Implications of the Proposed Changes

With the enactment of HB 42, amounts in the Experience Accounts of each state retirement system will be used to provide permanent benefit increases for eligible retirees and beneficiaries. The maximum benefit increase will be:

1.5% x the current annual benefit, but no more than 1.5% x $60,000.

Cost Analysis:

Analysis of Actuarial Costs

HB 42 contains benefit provisions having an actuarial cost.

Retirement Systems

PBIs Costs under Current Law

Under current law, the boards of trustees for the four state retirement systems with the approval of the legislature would not be able to grant a PBI under the provisions of PBI template law. According to template law, a state retirement system that granted a PBI in the prior year may not grant a PBI in the current year. All four state systems granted a PBI effective July 1, 2014. No PBIs may be granted effective July 1, 2015.

PBI Costs under HB 42

Template Over-Ride

HB 42 over-rides template law. HB 42 gives the boards of trustees the authority to make a 1.5% PBI grant regardless of template law prohibiting such a grant.

If HB 42 is enacted, the actuarial present value of future benefits payable for the four systems will be $350,825,090. Additional information is shown below:

Table 1
1.5% PBI Effective July 1, 2015 for the State Retirement Systems under HB 42

	LASERS	TRSL	LSERS	STPOL	Total
Number Eligible for a PBI					
Estimated Eligible Regular Retirees	32,472	57,216	10,146	672	100,506
Estimated Eligible Survivors	5,751	6,541	1,662	295	14,249
Estimate Eligible Disabled Retirees	2,506	4,089	331	61	6,987
Total	40,729	67,846	12,139	1,028	121,742
Actuarial Present Value of PBI					
Benefits Increase − Regular Retirees	$ 101,164,238	$ 193,159,879	$ 15,325,343	$ 3,834,209	$ 313,483,669
Benefits Increase − Survivors	10,211,614	13,972,223	1,609,587	788,640	26,582,064
Benefits Increase − Disabled Retirees	4,228,693	5,961,764	328,075	240,825	10,759,357
Total	$ 115,604,545	$ 213,093,866	$ 17,263,005	$ 4,863,674	$ 350,825,090
Balance in the Experience Account					
Balance on June 30, 2014	$ 117,093,356	$ 218,148,161	$ 20,787,326	$ 12,069,552	$ 368,098,395

Each of the Experience Account balances is sufficient to fully fund a 1.5% PBI.

Effect on Amortization Bases

Each of the four state systems achieved significant investment gains for FYE 2014. As a result, a portion of those gains were transferred from the regular pool of assets to the Experience Account and a new charge base was established on June 30, 2014, equal to the amount so transferred. Employer amortization costs for the next 30 years are now larger than they would have been otherwise. Allocations to the Experience Accounts and 30-year amortization of those allocations are shown below.

Table 2
Experience Account Allocations on June 30, 2014 and Additional Amortization Costs Incurred

	LASERS	TRSL	LSERS	STPOL	Total
Allocations to the Experience Account for FYE 2014	$ 4,590,124	$ 170,334,888	$ 20,787,326	$ 16,675,834	$ 212,388,172
New Amortization Costs for the Next 30 Years until FYE 2043	383,565	14,733,703	1,658,377	1,229,144	18,004,789

However, please note the following:

1. Employers still have 29 years of amortization payments left in order to restore the Regular Benefit Account to its original position. The Experience Account is funded only because plan sponsors "borrowed" from the Regular Benefit Account to fund the Experience Account.

2. The average duration of the 1.5% PBI to be granted on July 1, 2015, is about 15.5 years. However, employers will be paying for the grant for the next 29 years.

There is no consensus about whether a change in method can be made without legislation. We have prepared this note under the assumption that legislation is necessary for a PBI to be granted.

To summarize:

1. The total actuarial present value of future benefit payments (PVFB) will increase $350,825,090 as a result of HB 42.

2. The Experience Account of each state system has sufficient funds to offset the cost of the PBIs under HB 42.

3. Because a charge base has already been established to amortize the cost over 30 years, a new base will not be needed.

4. HB 42 will have no effect on the General Fund or Local Funds during the next 5-year measurement period.

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 next 5-year measurement period.

Expenditures:

1. Expenditures from the General Fund will not change.

2. Expenditures from each state retirement system (Agy Self-Generated) will increase beginning FYE 2016 as larger pension benefits are distributed. There will be an outflow of funds from each system for PBI payments to eligible retirees and beneficiaries. Year by year expenditures are summarized below.

Fiscal Year	Increase in LASERS Expenditures	Increase in TRSL Expenditures	Increase in LSERS Expenditures	Increase in STPOL Expenditures	Total Increase in Expenditures
2015-16	$ 11,557,915	$ 22,259,748	$ 1,935,916	$ 451,770	$ 36,205,350
2016-17	11,398,106	21,933,364	1,879,952	441,700	35,653,122
2017-18	11,230,352	21,531,398	1,822,655	431,241	35,015,646
2018-19	11,044,832	21,137,415	1,764,175	420,330	34,366,753
2019-20	10,855,240	20,719,923	1,704,645	408,986	33,688,793
Total	$ 56,086,444	$ 107,581,849	$ 9,107,343	$ 2,154,027	$ 174,929,663

3. Expenditures from Local Funds will not change.

Revenues:

- Revenues for each state retirement system (Agy Self-Generated) will not change. Assets in the Experience Account will be transferred to the Regular Benefit Account to cover the additional liability associated with the enactment of HB 42.

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.

Actuarial Caveat

There is nothing in 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 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	**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