

## RÉSUMÉ DIGEST

HB 42

2015 Regular Session

Jones

### Permanent Benefit Increase

Existing law, relative to the four state retirement systems, establishes an "experience account" within each system for the accumulation of certain system funds. Provides for utilization of these funds for benefit increases, commonly called "cost-of-living adjustments" (COLAs), for retirees, survivors, and beneficiaries of the system. Provides that the following classes of retirees and beneficiaries are eligible for a COLA paid pursuant to existing law:

- (1) Any retiree who has received a benefit for at least one year and who has attained at least age 60.
- (2) Any nonretiree beneficiary who has received a benefit for at least one year, aggregated with any time the deceased member may have received a benefit, if the deceased member would have attained age 60.
- (3) Any disability retiree or any beneficiary who receives benefits based on the death of a disability retiree if benefits have been received for at least one year.

Existing law provides that a COLA may only be granted every other year. During the 2014 R.S., the legislature authorized payment, payable July 1, 2014, of a COLA for retirees and beneficiaries of each of the four state retirement systems.

Proposed law would have authorized each system board to grant a COLA to retirees and beneficiaries of that system, payable July 1, 2015, funded from monies in the system experience account.

Proposed law would have utilized existing law qualification for receipt of a COLA pursuant to proposed law.

Proposed law would have authorized payment of a COLA in an amount supported by the funds in the system's experience account after all required credits and debits to the account pursuant to existing law. Proposed law further would have placed a cap on the payable amount of the proposed COLA at the maximum payment percentage of the retiree or beneficiary's benefit amount provided for in existing law, currently 1.5% for LASERS and TRSL and 2% for LSERS and STPOL.

Proposed law would have limited the benefit increase to payment only on the first \$60,000 of a retiree or beneficiary's benefit.

### Experience Account Credits and Debits

Existing law provides that credits shall be made to the experience account when the system has certain levels of excess investment earnings. The funds that do not go into the experience account are amortized as a credit to help reduce the employer contributions.

Proposed law would have prescribed the order in which credits and debits are to be made to the experience account. Would have required credits (or debits) related to the net investment gain (or loss) attributable to the balance in the experience account during the prior year be made first. Subsequently, any credits pursuant to existing law investment experience gain were to be applied. Lastly, if any COLA were to be paid, the debit for such COLA cost would be made to the account.

Proposed law further would have prohibited any credits relative to investment experience be made to the account in the June 30, 2015 valuation.

## Reduced Amortization Periods

Existing law provides that the general amortization period for all credits and debts of the state retirement systems shall be 30 years until the system is 85% funded.

Proposed law would have required that, beginning with the June 30, 2015 valuation and with each succeeding valuation for a period of five years, the amortization period for each system would be reduced by two years, resulting in a 20-year amortization period by 2020.

## Reamortization of Debts Every 5 Years

Existing law provides for additional payments on each system's oldest amortized debts. Specifies that the debts shall not be reamortized until that system has reached a funded level of at least 85%. Further provides that if the system is 85% funded or greater, such debt is reamortized with each payment.

Proposed law would have required that, in the June 30, 2015 valuation, such debts shall be reamortized to reflect any additional payments that have been made since the last reamortization. Would have required reamortization again in 2019 and every five years thereafter until the system reaches the 85% funding level.

## Accounting for Credits to the Experience Account

Existing law generally requires debts of a state retirement system, including any credits made to the experience account, to be amortized over a 30-year period.

Existing constitution requires any benefit provision with an actuarial cost to be funded within ten years.

Existing law, requires that, beginning with the June 30, 2019 valuation, any funds credited to the experience account shall be accounted for as a debt with a ten-year amortization period. Proposed law would have made this requirement applicable beginning with the first valuation on or after June 30, 2015, that includes an experience account deposit.

Proposed law would have required that any cost of proposed law not funded by payments made from the system experience account would be funded with additional employer contributions.

Proposed law would have required that the provisions of proposed law would supercede and control in the event of any conflict between the provisions of proposed law and the provisions of any other Act of the 2015 R.S., regardless of the order of passage.

Proposed law would have prohibited severing provisions of the Act.

Proposed law would have required the adoption of a board resolution directing the actuary to utilize the proposed law provisions in creating the June 30, 2015 valuation in order for the authority to grant the proposed COLA to become operable.

(Proposed to amend R.S. 11:102(B)(3)(d)(v)(aa)(II), (bb), and (cc), (vi)(aa)(II), (bb)(II), and (cc), (vii)(aa)(II), (bb), and (cc), and (viii)(aa)(II), (bb)(II), and (cc), 102.1(B)(4)(b) and (5) and (C)(4)(b) and (5), 102.2(B)(4)(b) and (C)(4)(b) and (5), 542(A)(2)(intro. para.) and (B)(intro. para.), 883.1(A)(2)(intro. para.) and (B)(intro. para.), 1145.1(A)(1)(intro. para.) and (B)(intro. para.), and 1332(A)(1)(intro. para.) and (B)(intro. para.); proposed to add R.S. 11:102.1(B)(7) and (C)(7), 102.2(B)(6) and (C)(7), 542(H), 542.2, 883.1(I), 883.4, 1145.1(G), 1145.3, 1331.2, and 1332(H))

June 19, 2015

The Honorable Alfred W. Speer  
Clerk of the House of Representatives  
State Capitol  
Baton Rouge, LA 70802

Re: House Bill No. 42 by Representative Jones

Dear Mr. Speer:

House Bill No. 42 by Representative Jones grants a cost of living adjustment (COLA), which jeopardizes the state's credit rating by violating previous retirement reform efforts. In 2014, I signed Act 399, which granted a 1.5% COLA starting in July 2014 as long as COLAs were granted every other year until the system was 85% funded. This session, we worked with the author to amend House Bill No. 42 to maintain consistency with Act 399 and grant a COLA next year. In the last minutes of this Legislative Session, the author removed these amendments. Unfortunately, in its final form, this bill undoes prior reforms and undermines our commitment to keep our promises to Louisiana retirees.

Fitch explained in its April 2015 report:

Funding of the state's two largest pension systems is below average and has been declining. Recent reform efforts may contribute to some modest improvement...Reform efforts in the 2014 legislative session included the passage of Act 399 that instituted reforms to how cost of living increases are granted to retirees and how excess investment earnings are to be applied to address the unfunded actuarially determined liabilities (UAALs), as well as the re-amortization schedule of the UAALs at various funded levels. The reforms are expected to reduce employer contributions and modestly improve the funded ratios of the systems. Annual contributions to LASERS have been consistently below the actuarially-calculated level.

Standard & Poor's wrote in its April 2015 report:

The pension-funded ratio of 58.7% for 2014 is still weak...The 2014 state legislature passed pension reform that limited diversion from the pension investments for benefit enhancements and linked future pension benefit enhancements to funding levels, which could help boost future funding levels...In our view, the state's focus on structural solutions to its general fund budget challenges will be a key determinant of its future credit stability in the next two years, as will its ongoing efforts to restore the budget stabilization fund, fund long-term pension and OPEB [Other Post-Employment Benefit] obligations, and adhere to strong debt management practices.

Finally, Moody's April 2015 report noted that: "Louisiana's retirement system is underfunded, with a reported pension funded ratio for its largest plan, LASERS, of 59.3% as of June 30, 2014...After applying Moody's adjustments, Louisiana's adjusted net pension liability (ANPL) when averaged over a 3-year period ranks 8th largest among the states..." What would make the state's credit rating go down, they further explain, is "Failure to maintain budget discipline, resulting in overspending and continued structural imbalances."

For these reasons, I have vetoed House Bill No. 42 and hereby return it to the House of Representatives.

Sincerely,

Bobby Jindal  
Governor

cc: Honorable Glenn Koeppe