


**2016 REGULAR SESSION  
ACTUARIAL NOTE SB 2**

<p><b>Senate Bill 2 SLS 16RS-23 Original</b></p> <p><b>Author: Representative Sam Jones Date: March 23, 2016</b></p> <p><b>LLA Note SB 2.01</b></p> <p><b>Organizations Affected: State Retirement Systems</b></p> <p><b>OR INCREASE APV</b></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 SB 2 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT SYSTEMS. Authorizes payments funded by state systems' experience accounts to certain retirees and beneficiaries. (2/3 - CA10s29(F)) (6/30/16).

**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	See Analysis
Revenues	See 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.

<b><u>Actuarial Cost to:</u></b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

**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.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Annual Total	\$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

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**Bill Information:**

**Current Law**

The maximum cost-of-living-adjustment (COLA) that may potentially be given under current law effective July 1, 2016 is 0.124%. This percentage increase would be available for eligible retirees, survivors, and beneficiaries of the Louisiana 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). The COLA rate would apply to the first \$60,000 of an eligible person's annual benefit.

**Proposed Law**

SB 2 provides a COLA effective July 1, 2016 to eligible retirees, survivors, and beneficiaries equal to the amounts shown below

1. For LASERS, a 1.5% of the benefit amount.
2. For TRSL, a 1.5% of the benefit amount.
3. For LSERS, a 2.0% of the benefit amount.
4. For STPOL, a 2.0% of the benefit amount.

If the balances in the Experience Accounts on June 30, 2016 are less than the cost to provide for these COLAs, the percentage increase will be reduced accordingly.

The benefit increase will be paid only on the first sixty-thousand dollars of a retiree's, survivor's or beneficiary's annual benefit.

**Implications of the Proposed Changes**

SB 2 overrides current law for one year and provides a larger COLA to eligible person's than what they would have otherwise been entitled.

**Cost Analysis:**

**Analysis of Actuarial Costs**

SB 2 contains benefit provisions having an actuarial cost.

**Retirement Systems**

*Cost of COLAs under Current Law*

Eligible retirees will receive a 0.124% COLA under current law. The present value of these benefits, \$30,733,424, is shown in Table 1.

<b>Table 1</b>					
<b>Current Law COLA Effective July 1, 2016</b>					
	<b>LASERS</b>	<b>TRSL</b>	<b>LSERS</b>	<b>STPOL</b>	<b>Total</b>
	<b>0.124% COLA</b>		<b>0.124% COLA</b>		
<b>Estimated Number of:</b>					
Regular Retirees	33,575	58,751	10,146	696	103,168
Survivors & Beneficiaries	5,834	6,771	1,662	335	14,602
Disabled Retirees	2,457	4,121	331	62	6,971
<b>Total</b>	<b>41,866</b>	<b>69,643</b>	<b>12,139</b>	<b>1,093</b>	<b>124,741</b>
<b>Actuarial Present Value of COLA<sup>a</sup></b>					
Regular Retirees	\$ 8,956,456	\$ 16,845,115	\$ 1,384,049	\$ 332,603	\$ 27,518,223
Survivors and Beneficiaries	875,837	1,216,028	142,285	71,311	2,305,461
Disabled Retirees	346,354	512,504	30,148	20,735	909,740
<b>Total</b>	<b>\$ 10,178,647</b>	<b>\$ 18,573,647</b>	<b>\$ 1,556,482</b>	<b>\$ 424,649</b>	<b>\$ 30,733,424</b>
<b>Estimated Balance in the Experience Account on June 30, 2016<sup>b</sup>.</b>	<b>\$ 123,579,684</b>	<b>\$ 226,356,559</b>	<b>\$ 23,058,055</b>	<b>\$ 12,416,791</b>	<b>\$ 385,411,089</b>

- a. The liability is calculated using census data as of June 30, 2015 and rolled forward to June 30, 2016.
- b. Assuming there is no allocation to the Experience Account on June 30, 2016 and the return on the actuarial value of assets for FYE 2016 is 0.0%.

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*Cost of COLAs under SB 2*

SB 2 gives the boards of trustees the authority to grant a 1.5% to LASERS and TRSL and a 2.0% COLA to LSERS and STPOL. However, in no event will the COLA grant exceed the amount that can be paid for from the Experience Account.

If a full 1.5% COLA is granted to eligible retirees, survivors, and beneficiaries of LASERS and TRSL and a full 2.0% COLA is granted to eligible retirees, survivors, and beneficiaries of LSERS and STPOL, then the total actuarial present value of future COLA payments for the four systems will be \$379,763,726.

<b>Table 2</b>					
<b>SB 2 COLA Effective July 1, 2016</b>					
	<b>LASERS</b>	<b>TRSL</b>	<b>LSERS</b>	<b>STPOL</b>	<b>Total</b>
	<b>1.50% COLA</b>		<b>2.00% COLA</b>		
<b>Estimated Number of:</b>					
Regular Retirees	33,575	58,751	10,146	696	103,168
Survivors & Beneficiaries	5,834	6,771	1,662	335	14,602
Disabled Retirees	2,457	4,121	331	62	6,971
<b>Total</b>	<b>41,866</b>	<b>69,643</b>	<b>12,139</b>	<b>1,093</b>	<b>124,741</b>
<b>Actuarial Present Value of COLA<sup>a</sup></b>					
Regular Retirees	\$ 108,344,228	\$ 203,771,553	\$ 22,323,370	\$ 5,364,558	\$ 339,803,709
Survivors and Beneficiaries	10,594,802	14,710,016	2,294,923	1,150,179	28,749,920
Disabled Retirees	4,189,763	6,199,640	486,257	334,437	11,210,097
<b>Total</b>	<b>\$ 123,128,793</b>	<b>\$ 224,681,209</b>	<b>\$ 25,104,552</b>	<b>\$ 6,849,175</b>	<b>\$ 379,763,726</b>
<b>Estimated Balance in the Experience Account on June 30, 2016<sup>b</sup>.</b>	<b>\$ 123,579,684</b>	<b>\$ 226,356,559</b>	<b>\$ 23,058,055</b>	<b>\$ 12,416,791</b>	<b>\$ 385,411,089</b>

- The liability is calculated using census data as of June 30, 2015 and rolled forward to June 30, 2016.
- Assuming there is no allocation to the Experience Account on June 30, 2016 and the return on the actuarial value of assets for FYE 2016 is 0.0%.

Under these conditions, all systems would be able to provide the full COLA amount except LSERS. The maximum benefit increase that LSERS could provide would be 1.837%.

The increase in the present value of future benefits attributable to SB 2 is shown below:

<b>Table 3</b>			
<b>System</b>	<b>Present Value of COLA Grant</b>		<b>Increase</b>
	<b>SB 2</b>	<b>Current Law</b>	
LASERS	\$ 123,128,793	\$ 10,178,647	\$ 112,950,146
TRSL	224,681,209	18,573,647	206,107,562
LSERS	25,104,550	1,556,482	23,548,068
STPOL	6,849,174	424,649	6,424,525
<b>Total</b>	<b>\$ 379,763,726</b>	<b>\$ 30,733,424</b>	<b>\$ 349,030,302</b>

**Other Post-Employment Benefits**

There are no actuarial costs associated with SB 2 for post-employment benefits other than pensions.

**Analysis of Fiscal Costs**

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

Expenditures:

- Expenditures from the General Fund will increase because the Experience Account has been emptied and becomes open to deposits of investment gains.
- Expenditures from the General Fund will increase because investment gains deposited into the Experience Account will be treated as an actuarial loss and amortized over a 30-year period. Employer contribution requirements will increase.
- Expenditures from each state retirement system (Agy Self-Generated) will increase beginning FYE 2017 to account for the additional COLA benefits. Year by year expenditures are summarized in Table 4.

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**Table 4**

<b>Fiscal Year</b>	<b>Increase in LASERS Expenditures</b>	<b>Increase in TRSL Expenditures</b>	<b>Increase in LSERS Expenditures</b>	<b>Increase in STPOL Expenditures</b>	<b>Total Increase in Expenditures</b>
2016-17	\$ 12,006,160	\$ 25,874,559	\$ 2,867,187	\$ 645,552	\$ 41,393,458
2017-18	11,616,068	25,882,507	2,679,340	619,792	40,797,707
2018-19	11,194,587	25,901,468	2,494,090	595,681	40,185,826
2019-20	10,756,994	25,766,804	2,311,587	571,945	39,407,330
2020-21	10,294,891	25,577,556	2,132,007	548,186	38,552,640
<b>Total</b>	<b>\$ 55,868,700</b>	<b>\$ 129,002,893</b>	<b>\$ 12,484,211</b>	<b>\$ 2,981,156</b>	<b>\$ 200,336,961</b>

4. Expenditures from Local Funds will increase because employer contributions to TRSL and LSERS will increase.

Revenues:

- Revenues for each state retirement system (Agy Self-Generated) will increase as employer contributions increase.

**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.

**Actuarial Caveat**

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**

- 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