2016 REGULAR SESSION
ACTUARIAL NOTE SB 18

Senate Bill 18 SLS 16RS-79 **Original** **Author: Senator Barrow Peacock** **Date: March 23, 2016** **LLA Note SB 18.01** **Organizations Affected:** **All State Retirement Systems** **OR DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 18 provides compliance with the requirements of R.S. 24:521**  **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT SYSTEMS. Provides for actuarial determinations and application of funds. (6/30/16)

<u>Cost Summary:</u>

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

<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 to:</u>	**<u>Change in the Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	$0
Total	Decrease

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 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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**5 Year Total**
State General Fund	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	0	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	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	$ 0	Decrease	Decrease	See Analysis	Decrease	Decrease

Bill Information:

Current Law

Current law contains rules 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) regarding the following.

1. The calculation of employee contribution requirements, and
2. The amount and timing of cost-of-living-adjustment (COLAs).

Proposed Law

SB 18 will substantially reorganize current law regarding the calculation of employee contribution requirements and the amount and timing of COLAs. The reorganization portion of SB 18 does not change any rules pertaining to the four state systems. It merely relocates provisions of law to make the law more readable and understandable.

Portions of SB 18 that modify or change current law are summarized below.

1. **Twenty-Year Amortization Period** − Under current law, the amortization period for most actuarial changes and gains and losses is 30 years. Under SB 18, the amortization period will be reduced from 30 years to 20 years over a 5 year period. The general amortization period will be 28 years for the 2016 valuation, 26 years for the 2017 valuation, 24 years for the 2018 valuation, 22 years for the 2019 valuation and 20 years for the 2020 and later valuations. This will apply to all four state systems.

2. **Amortization of Investment Gains Transferred to the Experience Account** − Under current law a charge base is established whenever an amount is transferred to the Experience Account. The charge base is amortized with level payments over a 30-year period. Beginning with the June 30, 2019 valuations, such charge bases will be amortized with level payments over 10 years. Under SB 18, charge bases attributable to transfers to the Experience Account will be amortized with level payments over a 10-year period beginning with the June 30, 2016 valuation.

3. **Merger of TRSL Sub Plans** − Under current law, there are three sub plans pertaining to primary and secondary education; regular K-12 teachers, Lunch Plan A staff, and Lunch Plan B staff. Separate employer contribution rates are determined for each of these sub plans. Under SB 18, a single employer contribution rate will be determined for the merged sub plans. This will first occur with the June 30, 2016 valuation.

4. **Level Re-Amortization of the OAB and EAAB** − Under current law, the OAB and EAAB for LASERS and TRSL receive a portion of investment gains that are then used to reduce the outstanding balances of these bases. However the payment schedule is not changed. As a result such charge bases are paid off sooner than they would have been otherwise. Under SB 18, annual payment to amortize the OAB and EAAB with level payments over the remaining amortization period will be calculated on each valuation date. If the level payment is less than the payment otherwise payable relative to the OAB or EAAB, then the level payments so calculated will replace the existing payment schedule.

5. **Re-amortization of Certain UAL Bases** − Under current law, outstanding balances of the OAB, EAAB, and the next oldest charge base receiving allocations of investment gains, if applicable, will be re-amortized with level payments over the remaining amortization period once the system become at least 85% funded. Under SB 18, the OAB, EAAB, and the oldest charge base, if applicable will be re-amortized on June 30, 2016 and every fifth year thereafter. Re-amortization will not occur on June 30, 2017, 2018, 2019 or 2020 or on any June 30 that is not 2016 plus a multiple of 5 years. However, once the system becomes 80% funded, re-amortization will occur every year with level payments over the remaining amortization period.

6. **Changing the Order of Debits and Credits to the EA –** Current law as interpreted by LASERS and TRSL is compared below with the provision of SB 18. Priority means the order in which adjustments to the Experience Account are made.

Priority	**Interpretation of Current Law**	**SB 18**
First	The present value of a COLA grant (debit)	Investment income (positive or negative) attributable to the balance in the Experience Account on the prior year's valuation date. (credit or debit)
Second	Investment income (positive or negative) attributable to the balance in the Experience Account on the prior year's valuation date. (credit or debit)	The portion of investment gains to be transferred to the Experience Account (credit)
Third	The portion of investment gains to be transferred to the Experience Account (credit)	The present value of a COLA grant (debit)

Implications of the Proposed Changes

SB 18 is essentially a bill that reorganizes sections of current law regarding the calculation of employee contribution requirements and the amount and timing of COLAs. SB 18 also modifies amortization rules.

<u>**Cost Analysis:**</u>

Analysis of Actuarial Costs

SB 18 does not contain benefit provisions having an actuarial cost.

Retirement Systems

SB 18 affects the funding policy. The allocation of actuarial costs to future periods will change and future employer contribution requirements will change. The effects of these changes are summarized below.

1. **Twenty Year Amortization Period –** This provision affects the Funding Policy of the retirement systems. It has no effect on benefits or the present value of future benefits. Employer contribution requirements may increase or decrease as a result of this portion of SB 18 depending on whether a base is positive or negative.

2. **Amortization of the Investment Gains Transferred to the Experience Account –** This provision affects the Funding Policy of the retirement system. It has no effect on benefits or on the present value of future benefits. Employer contribution requirements for FYE 2018, 2019,and 2020 may potentially increase as a result of this portion of SB 18.

3. **Merger of TRSL Sub Plans** – The merger of the K-12 sub plan, the Lunch Plan A sub plan and the Lunch Plan B sub plan into a single sub plan has no effect on employer contribution requirements.

4. **Level Re-amortization of the OAB and EAAB** – This provision affects the Funding Policy of the retirement system. It has no effect on benefits or on the present value of future benefits. Employer contribution requirements will decrease as a result of this portion of SB 18.

5. **Re-amortization of Certain UAL Bases –** This provision affects the Funding Policy of the retirement system. It has no effect on benefits or on the present value of future benefits. Employer contribution requirements will decrease as a result of this portion of SB 18.

6. **Changing the Order of Debits and Credits to the EA –** COLA grants are likely to be smaller and less frequent with the enactment of SB 18 than under current law. Employer contribution requirements will decrease as a result of this portion of SB 18.

Other Post-Employment Benefits

There is no actuarial cost associated with SB 18 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Changes in fiscal costs are summarized below:

Expenditures:

1. Expenditures from the General Account will decrease as a result of SB 18 because employer contribution requirements will decrease. The portion of SB 18 relative to re-amortization of the OAB and EAAB produced a significant decrease in employer contribution requirements. See table below.

Impact of Re-amortization of the OAB and EAAB on UAL Payments					
	Current Law		**SB 18**		**Impact of SB 18**
Fiscal Year	LASERS	TRSL	LASERS	TRSL	
2016-2017	$ 403,755,796	$ 605,420,387	$ 383,502,079	$ 577,197,162	$ (48,476,942)
2017-2018	423,943,586	644,772,712	402,677,183	592,928,794	(73,110,321)
2018-2019	427,917,730	650,336,332	406,375,167	598,083,928	(73,794,967)
2019-2020	431,971,357	656,011,225	410,147,111	603,342,166	(74,493,305)
2020-2021	436,106,057	661,799,615	428,371,914	628,748,255	(40,785,503)
Total	$ 2,123,694,527	$ 3,218,340,271	$ 2,031,073,455	$ 3,000,300,305	$ (310,661,038)

Employer contribution requirements relative to the remaining SB 18 changes may increase or decrease. It is more likely than not that employer contribution requirements in the aggregate will decrease.

2. Expenditures from the retirement systems (AGY Self-Generated) will decrease because COLA grants will be smaller and less frequent under SB 18 than under current law.

3. Expenditures from Local Funds will decrease as a result of SB 18 because employer contribution requirements will decrease.

Revenues:

1. Retirement System revenues (Agy Self-Generated) will decrease under SB 18 because employer contribution requirements will decrease.

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 18 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