2016 REGULAR SESSION
REVISED ACTUARIAL NOTE HB 907

House Bill 907 HLS 16RS-1141
Original - Revised

Author: Representative Harvey LeBas
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LLA Note HB 907.01

Organizations Affected:
Teachers' Retirement System of Louisiana

OR +$5,000,000 FC SG EX

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 907 provides compliance with the requirements of R.S. 24:521

Paul T. Richmond

Paul T. Richmond, ASA, MAAA, EA
Manager Actuarial Services

Bill Header: RETIREMENT/TEACHERS: Increases the earnings allowed in the Teachers' Retirement System of La. for retirees who are reemployed 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	$65,000,000
Total Five Year Fiscal Cost	
Expenditures	$45,000,000
Revenues	$20,000,000

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.

Actuarial Cost to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	$65,000,000
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	**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	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	25,000,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	5,000,000	5,000,000	5,000,000	5,000,000	20,000,000
Annual Total	$ 5,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 45,000,000

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	5,000,000	5,000,000	5,000,000	5,000,000	20,000,000
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	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 20,000,000

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<u>Bill Information:</u>

Current Law

Under current law, the pension benefit of a retiree of the Teachers' Retirement System of Louisiana (TRSL) who is reemployed in a position covered by TRSL membership will be suspended if the retiree is reemployed. However, current law provides an exception to the general rule for a retiree who is reemployed as a substitute K-12 classroom teacher. "Substitute classroom teacher" is defined as a classroom teacher employed in a temporary capacity to fill the position of another teacher who is unavailable to teach for any reason.

The earnings of a retiree reemployed as a substitute K-12 classroom teacher attributable to his reemployment may not exceed:

1. $0 during the period from his first day of reemployment to the earlier of his last day of reemployment or the first anniversary of his original retirement date.

2. 25% of his annual pension benefit during the fiscal year in which the first anniversary date of his original retirement occurs.

3. 25% of his pension benefit for any fiscal year thereafter.

TRSL will recover from the reemployed retiree any pension benefits paid in excess of these limits.

Proposed Law

Under HB 907, the earnings of a retiree reemployed as a substitute K-12 classroom teacher attributable to his re-employment may not exceed.

1. $0 during the period from his first day of reemployment to the earlier of his last day of reemployment or the first anniversary of his original retirement date.

2. 25% of his annual pension benefit during the fiscal year in which the first anniversary date of his original retirement occurs.

3. 50% of his pension benefit for any fiscal year thereafter.

TRSL will recover from the reemployed retiree any pension benefits paid in excess of these limits.

Implications of the Proposed Changes

HB 907 increases the earnings limitation from 25% to 50% for a retiree of TRSL who is reemployed as substitute classroom teacher. The 50% limitation will begin to apply for the second full fiscal year after the retiree's original retirement date.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

HB 907 contains benefit provisions having an actuarial cost.

Retirement Systems

Cost Components

There are two cost components associated with HB 907

1. **Component #1**: The increased cost associated with TRSL paying benefits to a substitute classroom teacher who earns more than 25% of his pension benefit in the second full fiscal year following his retirement.

2. **Component #2**: The increased cost associated with an expansion of the pool of teachers 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.

Information obtained from TRSL

The following information was provided by TRSL and derived from other sources

1. During FYE 2015, 787 retirees were reemployed as substitute classroom teachers: 62 retirees had earnings that exceeded the 25% earnings limit; 725 retirees did not exceed the earnings limit.

2. During FYE 2014, 569 retirees were reemployed as substitute classroom teachers: 45 retirees had earnings that exceeded the 25% earnings limit; 524 retirees did not exceed the earnings limit.

3. About 3,500 retirees were reemployed in FYE 2001 even though a portion or all of their pension benefits were suspended.

4. Legislation was enacted in 2001 to substantially eliminate existing suspension of benefit rules. A retiree could work and still collect his pension benefit. By 2010, the number of reemployed retirees had increased to about 7,500.

5. As a result of Act 921 of 2010, retirees could no longer work and collect a pension from TRSL. Act 921 provided for only three exceptions to the general rule. However, the number of exceptions has increase because of legislation enacted during the 2011 through 2015 session.

6. Nevertheless, the number of reemployed retirees has decreased to about 5,400.

Assumptions

We used the following assumptions in our analysis of costs.

1. The average pension benefit is $30,000 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. Retired teachers, reemployed as substitute classroom teachers, do not return to work until the first day of the second full fiscal year that occurs after retirement.

4. For example, if a member retires on November 1, 2016, the first full fiscal year following retirement is the fiscal year ending June 30, 2017. The first day of the second full fiscal year is July 1, 2017.

Component #1 Cost

Actuarial and fiscal costs will increase if the earnings limit for retirees reemployed as substitute K-12 classroom teachers is changed from 25% to 50%. Our analysis is given below.

1. Suppose a retiree who originally retired on November 1, 2016, is reemployed July 1, 2017 as a full-time substitute classroom teacher.

2. Under current law and under HB 907, the retiree's total income for FYE 2018 (the first full fiscal year of retirement) will be $37,500 ($30,000 of employment income and $7,500 from TRSL).

3. Under current law, the retiree's total income for FYE 2019 (the second full fiscal year after retirement) will be $37,500 ($30,000 of employment income and $7,500 from TRSL).

4. Under HB 907, the retiree's total income for FYE 2019 will be $45,000 ($30,000 of employment income and $15,000 from TRSL).

Suppose there are 60 retirees each fiscal year with employment and retirement characteristics similar to the example given above. Then the annual cost associated with HB 907 is estimated to be $450,000.

Annual Cost = The number of retirees x the increase in the earnings limit x the annual pension benefit

= 60 x 25% x $30,000

= $450,000

As stated above, there are 725 retirees who are reemployed as a substitute classroom teacher but do not exceed the 25% earnings limit. Let's assume the following.

1. Each of these retirees self-limited his reemployment income to 25% of his pension benefit because of the current 25% limitation.

2. If the earnings limitation is raised to 50%, some retirees will not materially increase their reemployment. They are content to earn what they are currently earning. HB 907 will have no effect on these reemployed retirees.

3. If the earnings limitation is raised to 50%, some retirees will increase their reemployment to earn 50% of their pension instead of 25%.

4. If the earnings limitation is raised to 50%, some retirees will consider reemployment for the first time. The 25% limit was too restrictive to make reemployment worthwhile. But a 50% limit allows the retired teacher to make a meaningful contribution to the education of students and to provide a significant boost to his total income.

If we assume 700 retirees each fiscal year elect to increase their level of reemployment as a result of HB 907. If we further assume that each such retiree will earn 50% of his pension, then the annual cost is estimated to increase $5,250,000. The calculation is shown below.

Annual Cost = The number of retirees x the increase in the earnings limit x the annual pension benefit

= 700 x 25% x $30,000

= $5,250,000

The total annual cost increase associated with Component #1 will be about $5,700,000 ($450,000 + $5,250,000).

Component 2 Cost

The increase in the earnings limit from 25% of the pension benefit to 50% will tend to encourage teachers to retire earlier than they would have otherwise. As he considers his retirement options, a teacher may not be willing to retire and then return to work as long as the earning limit is 25%. As a result, he continues to be employed.

However, a teacher may find it appealing to be able to collect a full pension while at the same time work enough to earn 50% of his pension benefit. Under these circumstances, the change in the earnings limit from 25% to 50% has induced earlier retirement.

Suppose we assume that each year there are 100 retirees who are retired because of Act 907 and that one-half of these retirees are being reemployed in the first full fiscal year following retirement (and subject to the 25% limit) and one-half are being reemployed in the second or later full fiscal year after retirement.

The cost per teacher induced to retire early is developed below.

1. If these teachers had not been induced to retire, no pension benefits would be paid.

2. The 50 teachers induced to retire who are in the first full fiscal year of retirement will receive 25% of the pension that they would not have received had they not been induce to retire early.

3. The 50 teachers induced to retire who are in the second or later full fiscal year of retirement will receive 50% of the pension that they would not have received had they not been induce to retire early.

4. Therefore, 50 teachers will be collecting $7,500 from TRSL that otherwise would not have been paid and 50 teachers will be collecting $15,000.

5. The annual cost of HB 907 is estimated to be $1,125,000 (50 x $7,500 + 50 x $15,000).

Total Annual Cost

The total cost for HB 907 as analyzed above is estimated to be about $6,825,000 a year. Because there is no precise way to predict retirement behavior, the cost estimate is subject to significant variability. However, based on our actuarial experience, it is more likely than not that our analysis overstates the true cost. The annual cost could range from $4 million to $7 million. Our best estimate is about $5 million.

Assuming the additional annual cost continues indefinitely into the future, the actuarial present value cost is estimated to be about $65,000,000

Other Post-Employment Benefits

HB 907 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 pensions will increase.

Analysis of Fiscal Costs

HB 907 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from TRSL (Agy Self Generated) will increase $4.0 to $7.0 million a year to pay pension benefits that would not otherwise have been paid.

2. Expenditures from Local Funds will increase about $4.0 to $7.0 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.

Revenues:

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

<u>Actuarial Data, Methods and Assumptions</u>

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 HB 907 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
[X] 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