2016 REGULAR SESSION
REVISED ACTUARIAL NOTE HB 32

House Bill 32 HLS 16RS-150 **Original - Revised** **Author: Representative Sam Jones** **Date: April 13, 2016** **LLA Note HB 32.01** **Organizations Affected:** **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 HB 32 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/COLAS: Authorizes payment of a benefit increase, funded by state retirement system experience accounts, to certain retirees and beneficiaries of such systems.

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

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	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.

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	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	0	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Under current law, the board of trustees of a state retirement system may recommend to the legislature that the system be allowed to grant a COLA to retirees and beneficiaries if:

1. The balance in the Experience Account on the prior valuation date is sufficient to fund the COLA on an actuarial basis, and

2. Other conditions specified in the law are satisfied.

The maximum amount of COLA that can be requested is 0.10%, the increase in the CPI-U for FYE 2015. Balances in the Experience Accounts on June 30, 2015 were sufficient to grant a 0.10% COLA. The four state retirement systems – 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) – have satisfied all of the remaining conditions necessary for approval by the legislature. The increase would become effective July 1, 2016.

An eligible retiree is generally defined as a person who is age 60 or older. STPOL may grant a 2.0% COLA to retirees age 65 and older in addition to the regular 0.10% COLA.

All Experience Account transactions occur on June 30. Current law does not establish the order of these transactions. The only criteria that must be satisfied are:

1. The balance in the Experience Account after all transactions have occurred must not be less than $0. If it is, then the COLA grant will be reduced sufficiently so that the Experience Account balance complies with the "not less than $0" requirement.

2. The balance in the Experience Account after all transactions have been made must not exceed a specified multiple of the actuarial present value cost of a full COLA. If it does, the balance in the Experience Account will be reduced so that it does not exceed the specified limit.

Proposed Law

HB 32 provides for the following:

1. Definitive language specifying the order by which credits and debits are made to the Experience Account.

2. A special one-time cost of living adjustment that exceeds the amount that would otherwise by authorized under current law.

Specified Order of Credits and Debits

Under HB 32, all Experience Account transactions will continue to occur on June 30. However, HB 32 establishes a priority for each transaction. Priorities are identified below.

1. Transaction 1: The Experience Account is first credited or debited with investment income (positive or negative) attributable to the balance in the Experience Account on the prior year's valuation date.

2. Transaction 2: The Experience Account is then credited with the calculated portion of the system's investment gains. Under HB 32, the balance of the Experience Account after transaction 2 is then compared to the specified limit. If it exceeds the limit, then the balance in the Experience Account is reduced.

3. Transaction 3: And finally, the Experience Account is debited with the actuarial present value of any COLA granted. The balance of the Experience Account after Transaction 3 may not be less than $0. If it is, then the COLA grant must be reduced.

These provisions of HB 32 become effective with the June 30, 2016 valuation and will apply to future years as well.

One-Time Special COLA

HB 32 provides a one-time COLA effective July 1, 2016 to eligible retirees, survivors, and beneficiaries. The maximum COLA grant that may be given effective July 1, 2016 (0.10%) will be increased to the amounts shown below subject to available funds in the Experience Accounts.

1. For LASERS: A 1.5% COLA.
2. For TRSL: A 1.5% COLA.
3. For LSERS: A 2.0% COLA.
4. For STPOL: A 2.0% COLA for all eligible retirees plus an additional 2.0% COLA for those over age 65.

If the balance in the Experience Account on June 30, 2016 after Transaction 2 exceeds the specified Experience Account limits, then the balance in the Experience Account will be reduced accordingly.

If the balance in the Experience Account after Transaction 3 is less than $0, the COLA grant will be reduced accordingly. According to LSERS, the system may only be able to grant a 1.9% COLA.

This is a one-time special COLA that may be granted to eligible retires only on July 1, 2016. HB 32 will have no other effect on the provisions of Act 399 of the 2014 session.

Implications of the Proposed Changes

HB 32 permanently clarifies the order of credits and debits to the Experience Account. HB 32 provides for a special one-time COLA that overrides the COLA that would otherwise be available under current law. This COLA is to be effective only on July 1, 2016.

Cost Analysis:

Analysis of Actuarial Costs

HB 32 contains benefit provisions having an actuarial cost.

Retirement Systems

Actuarial Cost Associated with the Specified Order of Credits and Debits

The present value of future benefits will decrease as a result of these provisions of HB 32. Future transfers of investment gains into the Experience Account will be reduced and magnitude of future COLA grants will decrease.

Actuarial Costs Associated with the One-Time Special COLA

The maximum benefit increase, under current law, that may be granted to eligible retirees on July 1, 2016 is 0.10%. The cost associated with this increase is shown below in Table 1.

Table 1
Current Law COLA Effective July 1, 2016

	LASERS 0.10% COLA	TRSL 0.10% COLA	LSERS 0.10% COLA	STPOL[a] 0.10% COLA	Total 0.10% COLA
Number Eligible for a COLA:					
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
Total	41,866	69,643	12,139	1,093	124,741
Actuarial Present Value of COLA[b]					
Regular Retirees	$ 7,222,948	$ 13,584,770	$ 1,116,168	$ 3,667,675	$ 25,591,561
Survivors and Beneficiaries	706,320	980,668	114,745	856,204	2,657,937
Disabled Retirees	279,318	413,310	24,313	146,833	863,774
Total	$ 8,208,586	$ 14,978,748	$ 1,255,226	$ 4,670,712	$ 29,113,272
Estimated Balance in the Experience Account on June 30, 2016[c]	$ 123,579,684	$ 226,356,559	$ 23,058,055	$ 12,416,791	$ 385,411,089

a. The actuarial present value of COLA for STPOL includes the 2.0% special COLA applicable to STPOL retirees age 65 and older.

b. The liability is calculated using census data as of June 30, 2015 and rolled forward to June 30, 2016.

c. These present value measurements are based on the assumption that there will be no allocation to the Experience Account on June 30, 2016, and the return on the actuarial value of assets for FYE 2016 will be 0.00%.

The maximum benefit increase, under HB 32, that may be granted to eligible retirees on July 1, 2016 is 1.50% for LASERS and TRSL, 1.90% for LSERS, and 2.00% for STPOL. STPOL may grant an additional 2.00% COLA to retirees age 65 and older. The cost associated with these COLAs is shown below in Table 2.

Table 2
HB 32 COLA Effective July 1, 2016

	LASERS 1.50% COLA	TRSL 1.50% COLA	LSERS 1.90% COLA	STPOL[a] 2.00% COLA	Total
Number Eligible for a COLA:					
Regular Retirees	33,575	58,751	10,146	696	103,168
Survivors & Beneficiaries	5,834	6,771	1,662	335	14,302
Disabled Retirees	2,457	4,121	331	62	6,971
Total	41,866	69,643	12,139	1,093	124,741

Table 2 (Continued)					
HB 32 COLA Effective July 1, 2016					
	LASERS 1.50% COLA	TRSL 1.50% COLA	LSERS 1.90% COLA	STPOL[a] 2.00% COLA	Total
Actuarial Present Value of COLA[b]					
Regular Retirees	$ 108,344,228	$ 203,771,553	$ 21,207,211	$ 8,764,005	$ 342,086,997
Survivors & Beneficiaries	10,594,802	14,710,016	2,180,174	1,948,874	29,433,866
Disabled Retirees	4,189,763	6,199,640	461,942	464,548	11,315,893
Total	$ 123,128,793	$ 224,681,209	$ 23,849,327	$ 11,177,427	$ 382,836,756
Estimated Balance in the Experience Account on June 30, 2016[c]	$ 123,579,684	$ 226,356,559	$ 23,058,055	$ 12,416,791	$ 385,411,089

a. The actuarial present value of COLA for STPOL includes the 2.0% special COLA applicable to STPOL retirees age 65 and older.

b. The liability is calculated using census data as of June 30, 2015 and rolled forward to June 30, 2016.

c. These present value measurements are based on the assumption that there will be no allocation to the Experience Account on June 30, 2016, and the return on the actuarial value of assets for FYE 2016 will be 0.00%.

The actuarial present value of the additional COLA benefits provided under HB 32 are shown in Table 3.

Table 3					
Increases Due to HB 32 Effective July 1, 2016					
	LASERS	TRSL	LSERS	STPOL	Total
Number Eligible for a COLA:					
Regular Retirees	33,575	58,751	10,146	696	103,168
Survivors & Beneficiaries	5,834	6,771	1,662	335	14,302
Disabled Retirees	2,457	4,121	331	62	6,971
Total	41,866	69,643	12,139	1,093	124,741
Increase in the Actuarial Present Value Due to HB 32:					
Regular Retirees	$ 101,121,280	$ 190,186,783	$ 20,091,043	$ 5,096,330	$ 316,495,436
Survivors	9,888,482	13,729,348	2,065,429	1,092,670	26,775,929
Disabled Retirees	3,910,445	5,786,330	437,629	317,715	10,452,119
Total	$ 114,920,207	$ 209,702,461	$ 22,594,101	$ 6,506,715	$ 353,723,484

Election to Decline the July 1, 2026 COLA.

The boards of trustees under current law may decline a COLA on July 1, 2016 by not seeking approval from the legislature. A new set of circumstances may allow a larger COLA to be paid in the subsequent year. However, it not likely that a larger COLA will be available on July 1, 2017 than the COLA (0.10%) that is available on July 1, 2016. The reasons why are discussed below.

1. The CPI-U has decreased 0.06% from June 2015 through February 2016. Unless, there is significant inflation in March through June 2016, it is unlikely that deferral of a COLA under current law until July 1, 2017 will result in a significantly larger COLA than the 0.10% COLA available on July 1, 2016. Furthermore, waiting a year may result in no COLA being available.

2. The return on the market value of assets for the state systems through February 2016 has been about 0.00%. It is quite likely that the return on the actuarial value of assets for FYE 2016 will be less than 8.25%. If so, then the COLA available on July 1, 2017 will be equal to the CPI for FYE 2016, which is also likely to be very small.

Summary

1. A COLA as provided under HB 32 will increase the retirement system's accrued liability by $354 million.

2. It is likely that the Experience Account of each state system will have sufficient funds to cover the cost of the total COLA to be granted (the COLA available under current law plus the additional COLA provided under HB 32).

3. A COLA granted under HB 32 will not result in a new amortization charge base because a charge base is only established when funds are transferred to the Experience Account.

4. There earliest that the Experience Account would be depleted under current law (assuming the 0.10% COLA is not rejected by the boards of trustees) is June 30, 2019. The earliest that investment gains could be transferred to the Experience Account would be July 1, 2019.

HB 32 will deplete the assets the in Experience Account of each state system on June 30, 2016. The earliest that investment gains are likely to be available for transfer into the Experience Accounts is June 30, 2017.

5. The provisions of HB 32 pertaining to the prioritization of Experience Account transactions will reduce actuarial costs. For the next several years the increase in cost associated with the one-time COLA will exceed the savings associated with prioritization. However, savings will eventually exceed costs. We therefore estimate that the actuarial present value of future benefits in the aggregate will decrease.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 32 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 32 will have the following effects on fiscal costs during the 5-year fiscal measurement period.

Expenditures:

1. Expenditures from the General Fund will increase as soon as conditions align sufficiently to permit investment gains to be transferred to the Experience Account. This is not likely to occur under current law until July 1, 2019. Employer contribution requirements under current law will increase for FYE 2021, based on the June 30, 2019 valuation. Expenditures from the General Fund may increase as soon as FYE 2019 under HB 32. Therefore, there will be a fiscal cost to HB 32 as early as FYE 2019.

2. Expenditures from the state retirement systems (Agy Self-Generated) will increase beginning with the 2016-17 fiscal year.

3. Expenditures from Local Funds will increase as soon as conditions align sufficiently to permit investment gains to be transferred to the Experience Account. This is not likely to occur under current law until July 1, 2019. Employer contribution requirements under current law will increase for FYE 2021, based on the June 30, 2019 valuation. Expenditures from the Local Funds may increase as soon as FYE 2019 under HB 32. Therefore, there will be a fiscal cost to HB 32 as early as FYE 2019.

Revenues:

- State retirement system revenues (Agy Self-Generated) will increase as early as the 2018-19 fiscal year.

The effect of HB 32 provisions pertaining to the prioritization of Experience Account transactions will not be significant until after the end of the 5-year fiscal measurement period.

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 32 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