# 2016 REGULAR SESSION
# ACTUARIAL NOTE SB 2

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|---|---|
| **Senate Bill 2 SLS 16RS-23**<br>**Reengrossed with Senate Finance Committee Amendment #1406**<br><br>**Author: Senator Barrow Peacock**<br>**Date: April 13, 2016**<br><br>**LLA Note SB 2.03**<br><br>**Organizations Affected:**<br>**State Retirement Systems**<br><br>**RE INCREASE 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 2 provides compliance with the requirements of R.S. 24:521**<br><br>**Paul T. Richmond, ASA, MAAA, EA**<br>**Manager Actuarial Services** |

**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 | 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 | 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.

| **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 |

**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 whenever specified conditions are satisfied and there are sufficient assets in the Experience Account to fund the COLA on an actuarial basis.

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 all satisfied the conditions necessary to request approval for a COLA by the legislature. However, the maximum amount that may be requested is a 0.10% COLA for all eligible retirees, beneficiaries and survivors of LASERS, TRSL, LSERS, and STPOL (the increase in the CPI-U from June 2014 to June 2015 was 0.10%). An eligible retiree is described in general as any retiree age 60 and older. In addition, retirees, beneficiaries, and survivors of STPOL who are age 65 and older are eligible for a 2.0% COLA.

There are sufficient funds in the Experience Accounts of each system to grant a 0.10% COLA. However, if the boards of trustees request a COLA to become effective on July 1, 2016, and the legislature approves, then the systems will not be allowed to grant a COLA beginning July 1, 2017. If a board of trustees elects not to request a 0.10% COLA effective July 1, 2016, and if the increase in the CPI-U for the period June 2015 to June 2016 is larger than 0.10%, a larger COLA may be requested beginning July 1, 2017.

**Proposed Law**

SB 2 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 Accounts on June 30, 2016 is less than the cost to provide for the COLAs, the percentage increase will be reduced accordingly. According to LSERS, the system may be only 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. SB 2 will have no other effect on the provisions of Act 399 of the 2014 session.

This Act shall take effect and become operative if and when the Acts which originated as SB 5 and SB 18 of the 2016 Regular Session of the Legislature are enacted and become effective.

**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. This COLA is to be effective only on July 1, 2016.

**Cost Analysis:**

**Analysis of Actuarial Costs**

SB 2 contains benefit provisions having an actuarial cost.

**Retirement Systems**

*Cost of COLAs under Current Law*

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 |

| **Table 1 (Continued)** | | | | | |
|---|---|---|---|---|---|
| **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** |
| **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%.

*Cost of COLAs under SB 2*

The maximum benefit increase, under SB 2, 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** | | | | | |
|---|---|---|---|---|---|
| **SB 2 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 |
| **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%.

*Cost Increase Attributable to SB 2*

The actuarial present value of the additional COLA benefits provided under SB 2 are shown in Table 3.

| **Table 3** | | | | | |
|---|---|---|---|---|---|
| **Increases Due to SB 2 Effective July 1, 2016** | | | | | |
| | **LASERS** | **TRSL** | **LSERS** | **STPOL** | **Total** |
| **Increase in the Actuarial Present Value Due to SB 2:** | | | | | |
| 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 0.10% COLA 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 SB 2 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 SB 2).

3. A COLA granted under SB 2 will not result in a new amortization charge base because already there are sufficient assets in the Experience Accounts.

4. There earliest that the 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.

   SB 2 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.

**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:

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 SB 2. Therefore, there will be a fiscal cost to SB 2 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 SB 2. Therefore, there will be a fiscal cost to SB 2 as early as FYE 2019.

Revenues:

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

**<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.

**<u>Actuarial Caveat</u>**

There is nothing in SB 2 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

## 2016 REGULAR SESSION
## ACTUARIAL NOTE SB 2

**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 | [x] 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 |