


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 49**

<p>House Bill 49 HLS 16RS-159 Original</p> <p>Author: Representative Barry Ivey Date: April 20, 2016</p> <p>LLA Note HB 49. 01</p> <p>Organizations Affected: State Retirement Systems</p> <p>OR NO IMPACT APV</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 HB 49 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT BENEFITS: Provides relative to payment of the actuarial cost of certain future expansions or augmentations of a member's benefit.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation 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	\$0
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	\$0

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

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	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	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	0	0	0	0
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	\$ 0	\$ 0	\$ 0	\$ 0

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Bill Information:

Current Law

Employees participating in the 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) – contribute to the systems as a condition of their employment. The contribution required from each participant varies by system and by sub plan within a system. The following contribution rates are set forth in current law.

Plan	Sub Plan	Employee Contribution Rate
LASERS	Rank and File ^a	8.00%
	Appellate Law Clerks ^a	8.00%
	Court Officers ^b	8.00%
	Pre 2011 Judges	11.50%
	Post 2011 Judges	13.00%
	Legislators	11.50%
	Special Legislative Group	9.50%
	Corrections Officers Primary	9.00%
	Corrections Officers Secondary	9.00%
	Wildlife Officers	9.50%
	Peace Officers	9.00%
	ATC Officers	9.00%
	Bridge Police Officers	8.50%
	Harbor Police Officers	9.00%
Hazardous Duty Officers	9.50%	
TRSL	K-12 Teachers	8.00%
	K-12 Lunch Plan A	9.10%
	K-12 Lunch Plan B	5.00%
	Higher Education Professional Staff	8.00%
LSERS	K-12 Staff other than Teachers	8.00%
STPOL	State Troopers ^c	9.50%

- a. The employee contribution rate is 7.50% for Rank and File members first employed on or before June 30, 2006.
- b. The employer contribution rate is 11.50% for court officers first employed on or before December 31, 2010.
- c. The employee contribution rate is 8.50% for State Police Officers first employed on or before December 31, 2010.
- d. Sub plans that are shaded are closed to new members.

The actuarially required employer contribution is determined by law to be the sum of the following:

1. The employer normal cost which is equal to the total normal cost minus employee contributions.
2. Annual amortization payments necessary to amortize changes in unfunded accrued liabilities (UAL); and
3. Annual amortization payments necessary to amortize the most recent year’s over- or under-payment of employer contributions.

Proposed Law

HB 49 applies primarily to future members of the state retirement system. In preparing this actuarial note, we assume the intent of HB 49 as expressed in the bill digest is correct. We also assume the word “augmentation” used in HB 49 has the same meaning as the word “improvement”.

HB 49 introduces two new terms – “new member” and “tier” – which are defined below:

1. The term “new member” is defined as any member of a state retirement system first employed on or after July 1, 2017.
2. The term “tier” is defined as any formal subset of new members classified by similar benefit provisions.

Under HB 49, the employee contribution in dollars for each tier of new members will be equal to:

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1. 50% of the total normal cost for the tier.
2. 50% of the increase in normal cost associated with any benefit augmentation for the tier.
3. 50% of all amortization payments for UALs resulting from any benefit augmentation for the tier.
4. 100% of all amortization payments for any over or under payment of employee contributions for prior years with such over or underpayment amortized with level payments over a 5 year period.

The employer contribution requirement in dollars will be equal to the total dollar contribution required minus the employee contribution. The employer contribution rate for a tier will be equal to the dollar employer contribution for the tier divided by the projected pay for the tier. The employee contribution rate for a tier will be the dollar employee contribution for the tier divided by the projected pay for the tier.

HB 49 requires that the schedules of each state system be examined by the retirement systems and legislative staff, including the actuaries for both. This examination will occur after July 1, 2019 and a report will be due to PRSAC by November 1, 2019. PRSAC will review the results and determine which changes to system plan provisions are advisable. If appropriate, PRSAC will then make a recommendation to the legislature on what legislation is warranted.

HB 49 will require the June 30, 2015 actuarial valuations to be redone incorporating the changes to employer and employee calculation procedures.

Implications of the Proposed Changes

Members of the state retirement systems first employed on or after July 1, 2017 will share equally in the cost of accruing benefits and the cost of any benefit improvements.

Cost Analysis:

Analysis of Actuarial Costs

HB 49 does not contain any benefit provisions having an actuarial cost. If HB 49 is enacted and all other retirement legislation fails passage, then employee contributions first employed on or after July 1, 2017 will be reduced and benefits paid upon termination of employment with less than 5 years of service will be smaller.

Retirement Systems

HB 49 will not have any effect on employer and employee contribution requirements for the state systems relative to members first employed on or before June 30, 2017.

HB 49 will affect members of the state systems first employed on or after July 1, 2017 (new members). HB 49 does not affect the total actuarial cost relative to new members, but it does change the allocation of contributions between employers and employees. If HB 49 is enacted, new members of the state systems and their employers will be required to share equally in the following costs.

1. The normal cost of a new member's benefit.
2. The UAL attributable to benefit improvements affecting a new member as long as the improvement occurs while the new member is still active and contributing to the system.

The employee contribution in dollars will be 50% of items 1 and 2 above plus 100% of contributions necessary to amortize with level payments over 5 years any over or under payments of employee contributions. Employer contributions will be equal to the total contribution requirement minus the employee contribution.

Other Post-Employment Benefits

There is no actuarial cost associated with HB 49 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Expenditures:

1. Total expenditures from the General Fund will increase because employer contribution rates will increase. However, these increases are not expected to be material during the 5 year measurement period.
2. Expenditures from the retirement systems (Agy Self-Generated) are expected to decrease because benefits payable to a new member who terminates employment during the 5 year measurement period are likely to be small to negligible.
3. Total expenditures from Local Funds will increase because employer contribution rates will increase. However, these increases are not expected to be material during the 5 year measurement period.

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Revenues:

- Retirement system revenues (Agy Self-Generated) will not change. Employee contributions will decrease; employer contributions will increase; but the total contribution will remain the same.

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 HB 49 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