


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 13**

<p>House Bill 13 HLS 16RS-50 Engrossed with House Retirement Committee Amendment #2783</p> <p>Author: Representative J. Kevin Pearson Date: April 22, 2016</p> <p>LLA Note HB 13.02</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana EG INCREASE 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 13 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/TEACHERS: Authorizes a member of the Teachers' Retirement System of Louisiana to purchase credit for service as a teacher at an out-of-state nonpublic school.

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

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Bill Information:

Current Law

An active member of the Teachers' Retirement System of Louisiana (TRSL) may purchase service credits under the system for teaching service rendered in a:

1. A charter school,
2. A nonpublic college or university in Louisiana, and
3. A state-approved elementary or secondary nonpublic or parochial school in Louisiana.

To receive such service credit, the member must pay to TRSL the actuarial present value of the additional benefit he will receive as a result of the service credits purchased. Payment of such service must be made as a single lump sum payment.

Proposed Law

Under HB 13, an active member of TRSL may purchase service credits under the system for teaching service rendered in a:

1. A charter school,
2. A nonpublic college or university in Louisiana,
3. A state-approved elementary or secondary nonpublic or parochial school in Louisiana, and
4. An elementary or secondary nonpublic school in another state that was (at the time of such service) approved by the appropriate educational agency in that state.

Implications of the Proposed Changes

HB 13 will permit a member of TRSL to purchase service credit for time spent as a teacher in a nonpublic elementary or secondary school in another state.

Cost Analysis:

Analysis of Actuarial Costs

HB 13 contains a benefit provision having an actuarial cost. A member purchasing additional service credits under HB 13 will receive a larger benefit upon termination of employment than he would have received under current law.

Retirement Systems

There is an actuarial cost associated with HB 13 associated with anti-selection.

1. Members with such service credits will purchase the service if it is in their best interest to do so and they can afford to make the purchase. Therefore, even though a member is required to pay the actuarial present value cost of such service, TRSL will incur costs associated with anti-selection.
2. Annuity purchase rates on the open market are currently based on interest assumptions that range from 3.00% to 3.50%. An annuity can be purchased from TRSL based on a 7.75% interest assumption. The greater the interest assumption the larger the benefit that can be purchased. Therefore, a member who has other funds set aside for retirement can convert all or a portion of his nest egg into an annuity from TRSL and such a purchase will provide a larger annuity than the member could purchase in the open market.

The underlying annuity purchase rates in the following example are purely hypothetical and are used merely to illustrate why a member may find it advantageous to purchase an annuity from TRSL.

- a. A member has \$200,000 accumulated in retirement accounts not associated with TRSL
- b. The member has 5 years of service credit earned while employed as a teacher in another state.
- c. The member can purchase the 5 years of credit from TRSL for \$60,000 and as a result of the purchase, his retirement benefit will increase \$6,000 a year.
- d. The member is may discover that it will cost \$80,000 to purchase a \$6,000 annuity in the open market place.
- e. If such a member wants to guarantee that he will not run out of money during retirement, he will protect his retirement income by purchasing the 5 years of service from TRSL rather than the open market,

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- f. The additional income that he purchases may allow the member to retire earlier than he would have been able to otherwise.
- g. This will lead to increased costs for the retirement system that cannot be recovered except through increases in employer contributions.

Other Post-Employment Benefits

Actuarial costs associated with post-employment benefits other than pensions will increase to the extent that a person who makes such a purchase is induced to retire earlier than he would have otherwise.

Analysis of Fiscal Costs

HB 13 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

- 1. Expenditures from the General Fund to TRSL will increase to the extent that HB 13 results in anti-selection. Anti-selection will lead to an increase in employer contribution requirements.
- 2. Expenditures from the General Fund will increase to the extent members in the higher education sub plan are induced to retire earlier than they would have otherwise. As a result, the employer's cost, associated with paying its share of post-retirement health insurance premiums, will increase.
- 3. Expenditures from TRSL (Agy Self-Generated) will increase because members who purchase service credits will receive larger benefit than they would have otherwise.
- 4. Expenditures from Local Funds to TRSL will increase to the extent that HB 13 results in anti-selection. Anti-selection will lead to an increase in employer contribution requirements.
- 5. Expenditures from Local Funds will increase to the extent members in K-12 sub plans are induced to retire earlier than they would have otherwise and to the extent that the employer shares insurance premium costs with employees.

Revenues:

- 1. TRSL revenues (Agy Self-Generated) will increase to the extent that members purchase such service credits during the 5-year fiscal measurement period and to the extent that employer contribution requirements increase.

Although there is a fiscal cost, the effect of HB 13 on expenditures during the 5 year measurement period will be small to negligible.

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 adopted 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 13 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