


**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 32**

<p><b>House Bill 32 HLS 16RS-150</b> Engrossed with House Retirement Committee Amendment #2795</p> <p><b>Author: Representative Sam Jones</b> <b>Date: April 22, 2016</b></p> <p><b>LLA Note HB 32.02</b></p> <p><b>Organizations Affected:</b> State Retirement Systems</p> <p><b>EG INCREASE APV</b></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 32 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
--	---

**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 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.

<b><u>Actuarial Cost to:</u></b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
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.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
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

**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 32**

**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.

**Proposed Law**

HB 32 provides a special one-time cost-of-living-adjustment to eligible retirees, beneficiaries and survivors that exceeds the amount that would otherwise be authorized under current law. The maximum COLA grant that may be given effective July 1, 2016 (0.10%) will be increased to the amounts shown below subject to funds available 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.

According to LSERS, the balance in the LSERS Experience Account may only be sufficient to grant a 1.9% COLA.

This is a one-time special COLA that may be granted to eligible retirees 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 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**

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.

<b>Table 1</b>					
<b>Current Law COLA Effective July 1, 2016</b>					
	<b>LASERS 0.10% COLA</b>	<b>TRSL 0.10% COLA</b>	<b>LSERS 0.10% COLA</b>	<b>STPOL<sup>a</sup> 0.10% COLA</b>	<b>Total 0.10% COLA</b>
<b>Number Eligible for a COLA:</b>					
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
<b>Actuarial Present Value of COLA<sup>b</sup></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
<b>Estimated Balance in the Experience Account on June 30, 2016<sup>c</sup></b>	\$ 123,579,684	\$ 226,356,559	\$ 23,058,055	\$ 12,416,791	\$ 385,411,089

**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 32**

- 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.

<b>Table 2</b>					
<b>HB 32 COLA Effective July 1, 2016</b>					
	<b>LASERS 1.50% COLA</b>	<b>TRSL 1.50% COLA</b>	<b>LSERS 1.90% COLA</b>	<b>STPOL<sup>a</sup> 2.00% COLA</b>	<b>Total</b>
<b>Number Eligible for a COLA:</b>					
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
<b>Actuarial Present Value of COLA<sup>b</sup></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
<b>Estimated Balance in the Experience Account on June 30, 2016<sup>c</sup></b>					
	\$ 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.

<b>Table 3</b>					
<b>Increases Due to HB 32 Effective July 1, 2016</b>					
	<b>LASERS</b>	<b>TRSL</b>	<b>LSERS</b>	<b>STPOL</b>	<b>Total</b>
<b>Number Eligible for a COLA:</b>					
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
<b>Increase in the Actuarial Present Value Due to HB 32:</b>					
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, 2016 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.

## **2016 REGULAR SESSION ACTUARIAL NOTE HB 32**

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. The 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 in the 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 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.

### **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.

**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 32**

**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