


**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 61**

<p><b>House Bill 61 HLS 16RS-425</b> Reengrossed with House Floor Amendment #2835</p> <p><b>Author: Representative Frank Hoffman</b> <b>Date: April 27, 2016</b></p> <p><b>LLA Note HB 61.03</b></p> <p><b>Organizations Affected:</b> <b>Teachers' Retirement System of Louisiana</b></p> <p><b>RE 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 61 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/TEACHERS: Provides relative to the reemployment of retired school psychologists in positions covered by the Teachers' Retirement System of La.

**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	See Analysis
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.

<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	\$ 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	Increase	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	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	\$ 0	Increase	Increase	Increase	Increase	Increase

## **2016 REGULAR SESSION ACTUARIAL NOTE HB 61**

### **Bill Information:**

#### **Current Law**

Under ordinary circumstances, benefits from TRSL are suspended for a retiree who is reemployed in a position requiring participation in TRSL. Exceptions to this general rule apply under specified circumstances. One of those circumstances occurs when a retiree is reemployed in a Reemployment-Eligible Critical Shortage Position.

A Reemployment-Eligible Critical Shortage Position is defined under current law as:

1. A position for a full or part time classroom teacher who teaches any student in a K-12 school where a critical shortage of teachers to fill such a position exists.
2. A position for a full time certified speech therapist, speech pathologist, audiologist, educational diagnostician, school social worker, or school counselor where a critical shortage of individuals eligible to fill such a position exists.

Benefit suspension rules pertaining to a retiree who returns to work in a Reemployment-Eligible Critical Shortage Position are summarized below.

1. Benefits from TRSL are suspended for any such retiree from the date of his reemployment to the earlier of his termination of reemployment or the first anniversary date of his original retirement.
2. If such a retiree is no longer subject to a suspension of benefits, he may be reemployed and continue to collect his pension benefit from TRSL.

A retiree reemployed in a Reemployment-Eligible Critical Shortage Position and his employer will make contributions to the TRSL. The retiree will not accrue any additional benefits. The retiree will receive a refund of his contributions without interest when he terminates employment. TRSL retains the contributions made by the employer.

#### **Proposed Law**

HB 61 adds school psychologists to the list of professions that are eligible for the less stringent suspension of benefit rules applicable to a retiree who is reemployed in a Reemployment-Eligible Critical Shortage Position.

#### **Implications of the Proposed Changes**

HB 61 is intended to make it easier for school districts to find qualified school psychologists.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

HB 61 contains benefit provisions containing an actuarial cost. Retired school psychologists who are reemployed will receive larger benefits from TRSL than they would have otherwise.

#### **Retirement Systems**

HB 61 affects actuarial costs in the following manner:

1. School psychologists may be induced to retire earlier than they would have otherwise.
2. A retired school psychologist may be induced to return to employment to increase his income.

#### *Inducement to Retire*

Under HB 61, a school psychologist who knows there is a critical shortage of qualified individuals to fill his position may elect to retire, keep working, and then a year later begin to collect his pension as well as his salary. Under current law, his pension would be suspended as long as he continued to work.

The number of psychologists who, as a result of HB 61, will be induced to retire earlier than they would have otherwise cannot be predicted with any degree of certainty. However, if one school psychologist retires each year a full year earlier than he would have otherwise, the annual retiree payroll for TRSL is estimated to increase \$30,000. This assumes the average annual pension for a school psychologist is \$30,000

#### *Inducement into Reemployment*

Under HB 61, a retired school psychologist who has been retired for one or more years and who knows there is a critical shortage of qualified individuals to fill a position of school psychologist may elect to be reemployed. If so, such an individual can be reemployed and collect his full pension as well as his salary. Under current law, his pension benefit would be suspended for as long as he was reemployed.

The number of school psychologists who would be willing to resume employment to take advantage of HB 61 cannot be predicted with any degree of certainty. However, the actuarial cost to TRSL for every school psychologist who is reemployed is estimated to be \$387,000. This estimate is based on the following:

## **2016 REGULAR SESSION ACTUARIAL NOTE HB 61**

1. The average pension benefit for a retired school psychologist is \$30,000 a year.
2. Under HB 61, a reemployed retired school psychologist continues to receive his \$30,000 a year benefit.
3. Under current law, the pension benefit payable to a reemployed retired school psychologist is suspended.
4. TRSL pays \$30,000 more each year under HB 61 than it would have paid under current law.
5. The present value of an indefinite additional payment of \$30,000 a year is approximately \$387,000.

The number of reemployed retired school psychologists who will benefit from HB 61 is likely to be small primarily because the number of such positions in Louisiana is comparatively small. However, for each school psychologist who is induced to retire (and continue to work) or who is induced to be reemployed, the annual cost to TRSL is estimated to be \$30,000. The present value cost is estimated to be \$387,000.

If there are five retired school psychologist who are working each year because of HB 61, who would have not been reemployed under current law, the estimated annual cost to TRSL is \$150,000. The actuarial cost is estimated to be \$1,935,000.

### **Other Post-Employment Benefits**

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from employee to retiree. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from an active status to a retired status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 61.
2. Employer premium expenditures may increase or decrease as a result of HB 61.

### **Analysis of Fiscal Costs**

HB 61 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from the General Fund will not change because HB 61 pertains only to employees of K-12 employers.
2. Expenditures from TRSL (Agy Self-Generated) will increase in order to pay benefits that would not have otherwise been paid.
3. Expenditures from Local Funds will increase to the extent school psychologists are induced to retire earlier that they would have otherwise and to the extent that retired school psychologists are induced to return to work without a suspension of benefits. This will lead to an increase in employer contribution requirements.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contribution requirements will increase.

### **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 61 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 61**

**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