


2016 REGULAR SESSION
ACTUARIAL NOTE HB 917

House Bill 917 HLS 16RS-127 Original Author: Representative Barry Ivey Date: May 3, 2016 LLA Note HB 917.01 Organizations Affected: State Retirement Systems OR SEE ANALYSIS	This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 917 provides compliance with the requirements of R.S. 24:521  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services
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Bill Header: RETIREMENT/STATE SYSTEMS: Establishes a single investment committee as a component part of each state retirement system to make all investment decisions and allocations for each such system.

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	See Analysis
Total Five Year Fiscal Cost	
Expenditures	See Analysis
Revenues	See Analysis

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.

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

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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Agy Self Generated	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Annual Total	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

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Bill Information:

Current Law

Current law provides that each of the state retirement systems will have a board of trustees to supervise the administrative, financial, actuarial, and investment operations of the retirement system, to implement adequate means to protect the benefits of the plan members, and to conserve and enhance pension fund assets.

The board of trustees for each retirement system has the authority to invest system assets, establish asset allocations, and adopt the system's actuarial assumed rate of return.

Proposed Law

HB 917 establishes the Consolidated State Investment Committee (CSIC) to:

1. Invest system assets, including but not limited to, the purchase, sale, assignment, or transfer of investments.
2. Design, adopt, and execute an asset allocation strategy.
3. Adopt the system's actuarial assumed rate of return and discount rate.

The Consolidated State Investment Committee will consist of the following members.

1. One representative from each of the boards of trustees of the four state retirement systems appointed by each board.
2. One member appointed by the president of the Senate.
3. One member appointed by the speaker of the House of Representatives.
4. Three members appointed by the governor.
5. Two members appointed by the state treasurer.

Each member of the committee, except the system's representative, must have a bachelor's degree in finance or accounting or at least five years of work experience in the investment industry.

Implications of the Proposed Changes

Under HB 917, investment responsibilities for pension plan assets will be removed from the boards of trustees of the four state retirement systems and will be assigned to the Consolidated State Investment Committee. The Consolidated Investment Committee will also be authorized to select the assumed rate of return on the actuarial value of assets and to select the discount rate to be used in the annual valuation.

Cost Analysis:

Analysis of Actuarial Costs

HB 917 does not contain benefit provisions having an actuarial cost.

Retirement Systems

Actuarial costs or savings will depend on the extent to which a change in governance affects investment policies.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 917 for with post-employment benefits other than pensions.

Analysis of Fiscal Costs

Fiscal costs will change over the 5-year measurement period due to the following:

1. Costs will increase because there will be another board that will have expenses and be entitled to per diems.
2. Costs will decrease due to economies of scale. There will be one board investing and managing assets. Staff duplication and staff redundancies could be eliminated.
3. Investment fees may be reduced because there will be a single pool of assets instead of four separate pools.

Fiscal costs will increase or decrease depending on the strategy used to implement HB 917. Efficient implementation could lead to savings. Inefficient implementation could lead to cost increases.

Expenditures and revenues will be affected in the following manner.

Expenditures:

1. Expenditures from the General Fund may increase or decrease.

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- 2. Expenditures in the aggregate by the retirement systems and by the Consolidated State Investment Committee (Agy Self-Generated) could increase or decrease.

- 3. Expenditures from local funds could increase or decrease.

Revenues:

- 1. Retirement system revenues (Agy Self-Generated) may increase or decrease depending upon whether employer contribution requirements increase or decrease.

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 917 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:

<u>Senate</u>	<u>House</u>
<input type="checkbox"/> 13.5.1: Annual Fiscal Cost ≥ \$100,000	<input type="checkbox"/> 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
<input type="checkbox"/> 13.5.2: Annual Tax or Fee Change ≥ \$500,000	<input type="checkbox"/> 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000
	<input type="checkbox"/> 6.8(G): Annual Tax or Fee Change ≥ \$500,000