


2016 REGULAR SESSION  
ACTUARIAL NOTE HB 1092

House Bill 1092 HLS 16RS-2047 Original  Author: Representative Barry Ivey Date: May 3, 2016  LLA Note HB 1092.01  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 1092 provides compliance with the requirements of R.S. 24:521   Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services
--	--

**Bill Header:** RETIREMENT/STATE SYSTEMS: Provides relative to actuarial assumptions of the state retirement 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	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.

<b>Actuarial Cost to:</b>	<b><u>Change in the Actuarial Present Value</u></b>
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.

<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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Annual Total	\$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

<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	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	\$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 1092**

**Bill Information:**

**Current Law**

Current law establishes the Public Retirement Systems' Actuarial Committee (PRSAC). The purpose of PRSAC is to attain and maintain the soundness of the retirement systems, plans, and funds and to advise and coordinate this ongoing process. PRSAC also reports all findings and recommendations to the House and Senate committees on retirement and the Joint Legislative Committee on the Budget.

Under current law, the board of trustees for each state retirement system – Louisiana State Employees’ Retirement System (LASERS), Teachers’ Retirement System of Louisiana (TRSL), Louisiana School Employees’ Retirement System (LSERS), and Louisiana State Police Retirement System (STPOL) – appoints an actuary to advise them on all actuarial and other issues related to the retirement system. The board of trustees adopts and discloses all actuarial assumptions (including an inflation assumption) and the actuary annually prepares an actuarial valuation report based on those assumptions.

The inflation assumption is a component part of the assumed rate of return on the actuarial value of assets and a component part of the salary increase assumption. Inflation assumptions used in the June 30, 2015 valuations of state retirement systems are shown in Table 1.

Inflation Component of the Investment Return Assumption and the Salary Increase Assumption as of June 30, 2015		
Retirement System	Investment Return	Salary Scale
TRSL	2.50%	2.00%
LASERS	3.00%	3.00%
LSERS	2.75%	2.75%
STPOL	2.75%	2.75%

**Proposed Law**

Under HB 1092, the authority to select the inflation assumption will be removed from the boards of trustees for the state retirement systems and given to PRSAC.

**Implications of the Proposed Changes**

All four state retirement systems serve members who for the most part live in Louisiana and all four systems invest similarly in a global marketplace. Governance over the selection of the inflation assumption will change and perhaps more consistency in this assumption will be achieved.

**Cost Analysis:**

**Analysis of Actuarial Costs**

HB 1092 does not contain benefit provisions having an actuarial cost.

**Retirement Systems**

HB 1092 will not have any effect on actuarial costs. Actuarial costs depend on the benefits provided and the actual experience of each retirement system. Assumptions used to calculate employer contribution requirements only affect the timing of those contributions. If the assumption set is too conservative, employer contribution requirements will be higher in the near future and lower in later years. If assumptions are too aggressive, then employer contribution requirements will be lower in the near future and larger in later years.

HB 1092 changes governance over the selection of the inflation assumption. It is not possible to predict how such a change in governance will affect inflation assumptions to be used in the future. Nor can the effect of HB 1092 on employer contribution rates be determined.

**Other Post-Employment Benefits**

There are no actuarial costs associated with HB 1092 for post-retirement benefits other than pensions.

**Analysis of Fiscal Costs**

The effect of HB 1092 on fiscal costs cannot be predicted.

**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.

**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 1092**

**Actuarial Caveat**

There is nothing in HB 1092 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