

Regular Session, 2014

HOUSE BILL NO. 86

BY REPRESENTATIVE IVEY

RETIREMENT/COLAS: Provides for application of a portion of state retirement system investment returns to system debt and increases the threshold that must be met prior to funding state retirement system experience accounts

1 AN ACT

2 To amend and reenact R.S. 11:102(B)(3)(d)(vi) and (viii), 102.1(B)(4) and (C)(4),

3 102.2(B)(4) and (C)(4), 542(A)(2), 883.1(A)(2), 1145.1(A)(1), and 1332(A)(1),

4 relative to excess investment returns of state retirement systems; to provide for

5 application of certain such returns to certain system debts; to provide relative

6 funding of experience accounts; and to provide for related matters.

7 Notice of intention to introduce this Act has been published

8 as provided by Article X, Section 29(C) of the Constitution

9 of Louisiana.

10 Be it enacted by the Legislature of Louisiana:

11 Section 1. R.S. 11:102(B)(3)(d)(vi) and (viii), 102.1(B)(4) and (C)(4), 102.2(B)(4)

12 and (C)(4), 542(A)(2), 883.1(A)(2), 1145.1(A)(1), and 1332(A)(1) are hereby amended and

13 reenacted to read as follows:

14 §102. Employer contributions; determination; state systems

15 \* \* \*

16 B.

17 \* \* \*

1           (3) With respect to each state public retirement system, the actuarially  
2           required employer contribution for each fiscal year, commencing with Fiscal Year  
3           1989-1990, shall be that dollar amount equal to the sum of:

4                                                 \*         \*         \*

5           (d) That fiscal year's payment, computed as of the first of that fiscal year and  
6           projected to the middle of that fiscal year at the actuarially assumed interest rate,  
7           necessary to amortize changes in actuarial liability due to:

8                                                 \*         \*         \*

9           (vi)(aa) Effective July 1, 2004, and beginning with Fiscal Year 2000-2001,  
10          the amortization period for the changes, gains, or losses of the Louisiana School  
11          Employees' Retirement System provided in Items (i) through (iv) of this  
12          Subparagraph shall be thirty years, or in accordance with standards promulgated by  
13          the Governmental Accounting Standards Board, from the year in which the change,  
14          gain, or loss occurred. The outstanding balances of amortization bases established  
15          pursuant to Items (i) through (iv) of this Subparagraph before Fiscal Year 2000-  
16          2001, shall be amortized as a level dollar amount from July 1, 2004, through June 30,  
17          2029. Beginning with Fiscal Year 2003-2004, and for each fiscal year thereafter, the  
18          outstanding balances of amortization bases established pursuant to Items (i) through  
19          (iv) of this Subparagraph shall be amortized as a level dollar amount.

20          (bb) Effective for the June 30, 2014, valuation and for each valuation  
21          thereafter, if the system's investment experience for the fiscal year exceeds the  
22          system's actuarially assumed rate of return, amounts from returns above the  
23          actuarially assumed rate of return and below an actuarial rate of return of ten percent  
24          shall be applied to the oldest outstanding positive amortization base of the system,  
25          without reamortization of such base, until all such bases are fully liquidated.

26                                                 \*         \*         \*

27          (viii)(aa) Effective July 1, 2009, and beginning with Fiscal Year 1992-1993,  
28          the amortization period for the changes, gains, or losses of the Louisiana State Police  
29          Retirement System provided in Items (i) through (iv) of this Subparagraph shall be

1 thirty years, or in accordance with standards promulgated by the Governmental  
 2 Accounting Standards Board, from the year in which the change, gain, or loss  
 3 occurred. The outstanding balances of amortization bases established pursuant to  
 4 Items (i) through (iv) of this Subparagraph before Fiscal Year 2008-2009, shall be  
 5 amortized as a level dollar amount from July 1, 2009, through June 30, 2029.  
 6 Beginning with Fiscal Year 2008-2009, and for each fiscal year thereafter, the  
 7 outstanding balances of amortization bases established pursuant to Items (i) through  
 8 (iv) of this Subparagraph shall be amortized as a level dollar amount.

9 (bb) Effective for the June 30, 2014, valuation and for each valuation  
 10 thereafter, if the system's investment experience for the fiscal year exceeds the  
 11 system's actuarially assumed rate of return, amounts from returns above the  
 12 actuarially assumed rate of return and below an actuarial rate of return of ten percent  
 13 shall be applied to the oldest outstanding positive amortization base of the system,  
 14 without reamortization of such base, until all such bases are fully liquidated.

15 \* \* \*

16 §102.1. Consolidation of amortization payment schedules; Louisiana State  
 17 Employees' Retirement System

18 \* \* \*

19 B.

20 \* \* \*

21 (4)(a) In any year in which the system exceeds its ~~actuarially-assumed~~  
 22 actuarially assumed rate of return, the system shall apply the greater of the following  
 23 to the remaining balance of the original amortization base established in this  
 24 Subsection:

25 (i) The ~~the~~ first fifty million dollars of excess returns.

26 (ii) One half of the excess returns above the actuarially assumed rate of  
 27 return and below an actuarial rate of return of ten percent.  
 28 ~~shall be applied to the remaining balance of the original amortization base~~  
 29 ~~established in this Subsection.~~

1           (b) After ~~such~~ application of the funds required pursuant to Subparagraph (a)  
 2           of this Paragraph, the net remaining liability shall be reamortized over the remaining  
 3           amortization period with annual payments calculated as provided in this Subsection  
 4           or as otherwise provided by law.

\*       \*       \*

6           C.

\*       \*       \*

8           (4)(a) In any year in which the excess returns of the system exceed the  
 9           amount in Paragraph (B)(4) of this Section, the system shall apply the greater of the  
 10          following to the experience account amortization base established in this Subsection:

11          (i) The ~~the~~ next fifty million dollars of excess returns.

12          (ii) Any remaining funds in excess of the excess returns applied pursuant to  
 13          Paragraph (B)(4) of this Section and below an amount equal to an actuarial rate of  
 14          return of ten percent.

15          ~~shall be applied to the experience account amortization base established in this~~  
 16          ~~Subsection.~~

17          (b) After ~~such~~ application of the funds required pursuant to Subparagraph (a)  
 18          of this Paragraph, the net remaining liability shall be reamortized over the remaining  
 19          amortization period with annual payments calculated as provided in this Subsection  
 20          or as otherwise provided by law.

\*       \*       \*

22          §102.2. Consolidation of amortization payment schedules; Teachers' Retirement  
 23          System of Louisiana

\*       \*       \*

25          B.

\*       \*       \*

27          (4)(a) In any year in which the system exceeds its ~~actuarially-assumed~~  
 28          actuarially assumed rate of return, the system shall apply the greater of the following

1 to the remaining balance of the original amortization base established in this

2 Subsection:

3 (i) ~~The the~~ first one hundred million dollars of excess returns.

4 (ii) One half of the excess returns above the actuarially assumed rate of  
5 return and below an actuarial rate of return of ten percent.

6 ~~shall be applied to the remaining balance of the original amortization base~~  
7 ~~established in this Subsection.~~

8 (b) ~~After such~~ application of the funds required pursuant to Subparagraph (a)  
9 of this Paragraph, the net remaining liability shall be reamortized over the remaining  
10 amortization period with annual payments as provided in this Subsection or as  
11 otherwise provided by law.

12 C.

13 \* \* \*

14 (4)(a) In any year in which the excess returns exceed the amount in  
15 Paragraph (B)(4) of this Section, the system shall apply the greater of the following  
16 to the experience account amortization base established in this Subsection:

17 (i) ~~The the~~ next one hundred million dollars of excess returns.

18 (ii) Any remaining funds in excess of the excess returns applied pursuant to  
19 Paragraph (B)(4) of this Section and below an amount equal to an actuarial rate of  
20 return of ten percent.

21 ~~shall be applied to the experience account amortization base established in this~~  
22 ~~Subsection.~~

23 (b) ~~After such~~ application of the funds required by Subparagraph (a) of this  
24 Paragraph, the net remaining liability shall be reamortized over the remaining  
25 amortization period with annual payments calculated as provided in this Subsection  
26 or as otherwise provided by law.

27 \* \* \*

1 §542. Experience account

2 A.

3 \* \* \*

4 (2) The experience account shall be credited as follows:

5 (a) To the extent permitted by Paragraph (3) of this Subsection and after  
6 allocation to the consolidated amortization bases as provided in R.S. 11:102.1, an  
7 amount not to exceed fifty percent of the remaining balance of the prior year's net  
8 investment experience gain above ten percent as determined by the system's actuary.

9 (b) To the extent permitted by Paragraph (3) of this Subsection, an amount  
10 not to exceed that portion of the system's net investment income attributable to the  
11 balance in the experience account during the prior year.

12 \* \* \*

13 §883.1. Experience account

14 A.

15 \* \* \*

16 (2) The experience account shall be credited as follows:

17 (a) To the extent permitted by Paragraph (3) of this Subsection and after  
18 allocation to the consolidated amortization bases as provided in R.S. 11:102.2, an  
19 amount not to exceed fifty percent of the remaining balance of the prior year's net  
20 investment experience gain above ten percent as determined by the system's actuary.

21 (b) To the extent permitted by Paragraph (3) of this Subsection, an amount  
22 not to exceed that portion of the system's net investment income attributable to the  
23 balance in the experience account during the prior year.

24 \* \* \*

25 §1145.1. Employee Experience Account

26 A.(1) The Employee Experience Account shall be credited as follows:

27 (a) To the extent permitted by Paragraph (2) of this Subsection, an amount  
28 not to exceed fifty percent of the prior year's net investment experience gain above  
29 ten percent as determined by the system's actuary.

1 (b) To the extent permitted by Paragraph (2) of this Subsection, an amount  
2 not to exceed that portion of the system's net investment income attributable to the  
3 balance in the Employee Experience Account during the prior year.

4 \* \* \*

5 §1332. Employee Experience Account

6 A.(1) The Employee Experience Account shall be credited as follows:

7 (a) To the extent permitted by Paragraph (2) of this Subsection, an amount  
8 not to exceed fifty percent of the prior year's net investment experience gain above  
9 ten percent as determined by the system's actuary.

10 (b) To the extent permitted by Paragraph (2) of this Subsection, an amount  
11 not to exceed that portion of the system's net investment income attributable to the  
12 balance in the Employee Experience Account during the prior year.

13 \* \* \*

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DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

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Ivey

HB No. 86

**Abstract:** Provides for application of certain amounts of state retirement system investment returns to debts of the system and increases the investment experience threshold a state retirement system must attain before funds may be transferred to the experience accounts, which are used to fund cost of living adjustments (COLAs) for retirees of such systems.

Proposed law generally provides for application of investment returns at a state retirement system that are in excess of the system's actuarially assumed rate of return and below 10% to be applied to debts of the system, as more specifically outlined below. Further changes the threshold at which excess returns are credited to the system experience account from the actuarially assumed rate of return to an actuarial rate of 10%. Details of proposed law are more fully explained below.

**Experience accounts**

Present law establishes experience accounts within all four state retirement systems: the La. State Employees' Retirement System (LASERS); the Teachers' Retirement System of La. (TRSL); the La. School Employees' Retirement System (LSERS); and the State Police Retirement System (STPOL). These accounts were established by the legislature as a mechanism for funding COLAs for retirees of such systems. Proposed law retains present law.

Present law provides that such accounts are credited with up to 50% of the actuarial gains the system earns above its actuarial assumed rate of return. These rates of return vary from system to system. For FY 2012-2013, the rates were as follows:

- (1) LASERS = 8%
- (2) TRSL = 8.25%
- (3) LSERS = 7.25%
- (4) STPOL = 7%

Proposed law changes the threshold for deposits to the accounts from the system's actuarially assumed rate of return to an actuarial rate of 10%. Retains present law provision that an amount up to 50% of the actuarial gains above the rate is credited to the account.

#### **Investment returns applied to system debts**

##### *LSERS and STPOL:*

Present law (R.S. 11:102) establishes the formula for determining state retirement system employer contribution rates each year. Present law formula includes amounts to cover the amortization payments of the liabilities for each of the state systems. Proposed law retains present law.

Proposed law provides that for the FY 2013-2014 system valuations for LSERS and STPOL, and for each valuation thereafter, if the system achieves actuarial gains in excess of its actuarially assumed rate of return, all of the gains achieved between the assumed rate of return and 10% are to be applied to the oldest outstanding liabilities of each system. These debts are not to be reamortized upon application of fund pursuant to proposed law. Further provides that upon complete payment of the oldest outstanding liability of a system, the funds are to be applied to the next oldest outstanding debt of the system until all such debts are fully paid.

##### *LASERS and TRSL:*

Present law (R.S. 11:102.1 and 102.2) establishes an Original Amortization Base (OAB) and an Experience Account Amortization Base (EAAB) for LASERS and for TRSL. Generally speaking, the OAB is a consolidated amortization base through which gains earned by the system between 1988 and 2009 are applied to the unfunded accrued liability of the system that existed as of June 30, 1988 (IUAL). Similarly, the EAAB is a consolidated amortization base through which the funds in the system's experience account to the debts of the system generated between 1988 and 2009.

Present law for LASERS (R.S. 11:102.1) requires that the first \$50 million in excess returns above the system's actuarially assumed rate of return are to be applied to the system's OAB.

Proposed law requires the system to apply the greater of the following to the system's OAB:

- (1) The first \$50 million in excess returns above the system's actuarially assumed rate of return as required by present law.
- (2) An amount equal to 50% of any excess returns the system achieves above its actuarially-assumed rate of return and below 10%.

Present law for LASERS further requires that the next \$50 million in excess of that paid to the system's OAB pursuant to present law shall be applied to the system's EAAB. Proposed law requires the system to apply the greater of the following to the system's EAAB:

- (1) The next \$50 million in excess of that paid to the system's OAB as provided by present law.



- (2) Any remaining amounts left after application to the system's OAB as provided in proposed law that are below an actuarial rate of return of 10%.

Present law for LASERS requires the amortization base to be reamortized after application of funds. Proposed law retains present law.

Present law for TRSL (R.S. 11:102.2) requires that the first \$100 million in excess returns above the system's actuarially assumed rate of return are to be applied to the system's OAB.

Proposed law requires the system to apply the greater of the following to the system's OAB:

- (1) The first \$100 million in excess returns above the system's actuarially assumed rate of return as provided by present law.
- (2) An amount equal to 50% of any excess returns the system achieves above its actuarially assumed rate of return and below 10%.

Present law for TRSL further requires that the next \$100 million in excess of that paid to the system's OAB pursuant to present law shall be applied to the system's EAAB.

Proposed law requires the system to apply the greater of the following to the system's EAAB:

- (1) Present law's requirement of the next \$100 million in excess of that paid to the system's OAB.
- (2) Any remaining amounts left after application to the system's OAB as provided in proposed law that are below an actuarial rate of return of 10%.

Present law for TRSL requires the amortization base to be reamortized after application of funds. Proposed law retains present law.

(Amends R.S. 11:102(B)(3)(d)(vi) and (viii), 102.1(B)(4) and (C)(4), 102.2(B)(4) and (C)(4), 542(A)(2), 883.1(A)(2), 1145.1(A)(1), and 1332(A)(1))