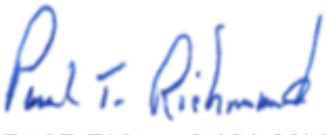


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 96**

<p>House Bill 96 HLS 14RS-546 Reengrossed with House Floor Legislative Bureau Amendment #2891</p> <p>Author: Representative John Bel Edwards</p> <p>Date: May 2, 2014</p> <p>LLA Note HB 96.03</p> <p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>RE DECREASE FC SG EX</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 96 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: JUDGES: (Constitutional amendment) Removes the mandatory retirement age of judges

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/(Savings) to Retirement Systems and OGB	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
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.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
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

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Bill Information:

Current Law

The constitution of the state of Louisiana provides that a judge shall not remain in office beyond his seventieth birthday. However, a judge who attains age 70 while serving a term of office shall be allowed to complete that term of office.

Proposed Law

Upon favorable passage by the electors of the state at a statewide election on November 4, 2014, the mandatory retirement age will no longer apply.

Implications of the Proposed Changes

HB 96 will allow members of LASERS who are employed as judges to continue employment beyond age 70.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The retirement eligibility requirements for judges who are members of LASERS are summarized below.

1. 10 years of Judicial Eligibility Service, at age 65.
2. 12 years of Judicial Eligibility Service, at age 55.
3. 18 years of Judicial Eligibility Service, at any age.
4. 20 years of Eligibility Service with 12 years of Judicial Eligibility Service, at age 50.
5. At age 70, regardless of years of Eligibility Service.

According to the June 30, 2013 actuarial valuation for LASERS, there are 320 judges who are active members accruing benefits. Fourteen judges are currently working beyond age 70 as they complete their term of office. There are 39 judges between age 65 and 70 and 56 judges who are between age 60 and 65.

Enactment of HB 96 and subsequent ratification of by the electors of the state does not change any of the benefit provisions of LASERS. However, if enacted, HB 96 will allow a judge to work longer and, as a result of working longer, lengthen his or her participation in LASERS. The actuarial effects of such longer participation are summarized below.

1. Future Benefit Payments Increase – A judge who works longer than he would have been able to otherwise will accrue more service credits and a larger pension when he eventually retires. There are actuarial costs to LASERS associated with the additional service credits.
2. Future Benefit Payments Decrease – A judge who works longer than he would have otherwise will not receive pension benefits while he continues to work beyond age 70. There are actuarial savings to LASERS associated with the judge not receiving pension benefits that he otherwise would have received.
3. Future Contributions Increase – A judge who works longer than he would have otherwise will continue to contribute to the retirement system. The state will also continue to contribute. There are actuarial savings to LASERS associated with these additional contributions.

The incidence of actuarial costs or savings will depend on the individual circumstances of each judge who continues to work beyond age 70. LASERS will incur additional actuarial costs relative to some judges who work beyond age 70 and will incur savings relative to others. However, it is more likely that delayed retirement will create actuarial savings but the savings will be small to negligible. Precise cost or savings measurements cannot be determined in advance of knowing which judge will take advantage of the opportunity to delay retirement.

Other Post-Employment Benefits

The liability associated with post-employment benefits other than pensions will be reduced for every judge who continues to work beyond when he otherwise would have been required to retire under current law. A precise measurement of savings cannot be determined in advance of knowing which judge will take advantage of the opportunity to delay retirement.

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Analysis of Fiscal Costs

HB 96 will have the following effects on cash flows during the five year fiscal cost measurement period.

Expenditures:

1. Expenditures from the General Fund will increase beginning in FYE 2015 because employer contributions will be required for judges who continue to work beyond age 70.
2. Expenditures from the General Fund will decrease to the extent that delayed retirement produces actuarial savings and a reduction in employer contribution requirements for LASERS. The decrease is expected to be small to the point of being negligible.
3. Expenditures from LASERS (Agy Self-Generated) will decrease beginning FYE 2015 to the extent that LASERS will not be making pension payments to judges who continue employment beyond age 70.
4. Although the liability associated with post-employment benefits will decrease, expenditures from the General Fund will not change relative to health and life insurance benefits provided to judges. These benefits will be provided regardless of whether the member is active or retired.

Revenues:

1. Revenues for LASERS (Agy Self-Generated) will increase beginning in FYE 2015 because employee and employer contributions continue for those judges who continue to work beyond 70.
2. Revenues to LASERS will decrease to the extent that the employer contribution rate becomes smaller because of net actuarial savings to the retirement system. These reductions in revenue are expected to be small to the point of being negligible.

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 96 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 State Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq \$500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000