2017 REGULAR SESSION
ACTUARIAL NOTE HB 31

House Bill 31 HLS 17RS-473
Enrolled

Author: Representative Frank Hoffmann
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LLA Note HB 31.04

Organizations Affected:
Teachers' Retirement System of Louisiana

EN DECREASE APV

This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.

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Bill Header: RETIREMENT/TEACHERS: Provides relative to the reemployment of retired school psychologists in positions covered by the Teachers' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 31 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the ***actuarial present value of future benefit payments***. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:		**Actuarial Cost**
The Retirement Systems		Decrease
Other Post-Employment Benefits (OPEB		0
Other Government Entities		0
Total		Decrease
	Fiscal Cost	
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Decrease	Decrease
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	Decrease	Decrease

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

Current Law and Proposed Law

Current law suspends the benefits of a reemployed retired member of the Teachers' Retirement System of Louisiana (TRSL). Two exceptions to this general rule under current law and under HB 31 are summarized below:

	Current Law	HB 31
General Rule	1. Benefits payable to a reemployed retiree will be suspended for the duration of his employment. 2. Benefits for a reemployed retiree who retired for disability will be suspended.	Same as current law.

	Current Law	HB 31
Rules for School Psychologists.	Pension benefits of a retired school psychologist who is reemployed are determined according to the General Rule. Limitation on Total Income for Reemployed School Psychologists 1. There are no limitations on the amount the retiree may earn from reemployment. 2. The retiree may not collect any pension benefits from TRSL as long as he is reemployed.	Pension benefits of a retired school psychologist who is reemployed are determined according to the following rules. Limitation on Total Income for Reemployed School Psychologists 1. There are no limitations on the amount the retiree may earn from reemployment. 2. The pension benefit payable to the retiree from TRSL will be $0 from the date he is reemployed until the earlier of the date he terminates employment and the first anniversary of his original date of retirement. 3. Thereafter, the benefit payable to the retiree from TRSL will be the retiree's full pension benefit. 4. Items 2 and 3 above apply to a school psychologist only if he is reemployed in a critical shortage position and his benefit accrual rate is at least equal to 2.5% or he did not retire early with an actuarially reduced benefit.
Special Retirees	Any retired teacher who returns to active service within the 12-month period immediately following the effective date of such retirement shall have his pension benefits suspended for the duration of such active service or the lapse of 12 months from the effective date of his retirement, whichever first occurs. In other words: 1. The first day of the suspension of benefits occurs on the retiree's reemployment date. 2. The last date of the suspension of benefits occurs on the earlier of the first anniversary of his original retirement and the last day of reemployment. Limitation on Total Income for Special Retirees 1. There are no limitations on the amount the retiree may earn from reemployment. 2. Pension benefit payable to the retiree will be suspended until he has been retired for one year.	Any retired teacher whose retirement benefit is based on an accrual rate of less than 2.5% or who retired early with an actuarial reduction shall have his pension benefits suspended unless he has been retired for at least 36 months. The retired teacher will be able to earn a salary from his employer and collect a full pension from TRSL. 1. The first day of the suspension of benefits occurs on the retiree's reemployment date. 2. The last date of the suspension of benefits occurs on the earlier of the third anniversary of his original retirement and the last day of reemployment. Limitation on Total Income for Special Retirees 1. There are no limitations on the amount the retiree may earn from reemployment. 2. Pension benefit payable to the retiree will be suspended until he has been retired for 3 years. 3. These provisions do not apply to a retiree who retired on or before June 30, 2010, or to a retiree who holds an advance degree in speech therapy, speech pathology, or audiology.

Implications of the Proposed Changes

HB 31 permits a qualified retired member of TRSL to return to work as a school psychologist and continue to receive his retirement benefit under certain circumstances. Under current law, pension benefits of a school psychologist are suspended if he is reemployed in a position covered by TRSL.

In general, HB 31 requires certain retirees to be retired at for least three years before they can earn income from reemployment while at the same time collect a pension benefit from TRSL

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

The actuarial present value of future benefits payable from TRSL is estimated to increase as a result of the school psychologist provisions of HB 31. The cost increase is expected to be small.

The actuarial present value of future benefit payments payable from TRSL is estimated to decrease as a result of the suspension of benefit provisions HB 31. We estimate a decrease will occur because the three year delay in the receipt of benefit payments for certain retirees is expected to mitigate against anti-selection that would otherwise lead to members retiring early.

We estimate that the net effect will be a decrease in the actuarial present value of future benefit costs.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 31 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

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 retiree to employee. 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 a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 31.

2. Employer premium expenditures may increase or decrease as a result of HB 31.

3. Other Government Entities

The actuarial cost of associated with government entities other than those identified in HB 31 is estimated to be $0. Our analysis is summarized below in Section II; Subsection C.

B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)

Unless indicated otherwise, the actuarial note for HB 31 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The 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.

C. Actuarial Caveat
(Prepared by LLA)

There is nothing in HB 31 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 31 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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

The effects on retirement related fiscal costs or savings during the five year measurement period are shown in Table A and in Items 2 and 3 below. A precise cost or savings cannot be determined because the actual cost or savings depends upon the age, service, and salary characteristics of retired school psychologists who return to work and upon the ratio of school psychologists that continue reemployment to those who are induced to retire. The best information that can be given relative to retirement related fiscal costs or savings, based on the information available to us, is that costs will increase and that the increase in cost will be small; probably less than $100,000 a year.

Nor can the fiscal effect of the remaining provisions of HB 31 be determined with any precision. The best estimate we can make is that fiscal costs will decrease and the decrease associated with provisions related to the three year delay is likely to be larger than the increase in fiscal costs associated with school psychologists.

2. Expenditures:

   a. Agy Self-Generated Expenditures will decrease because TRSL will distribute fewer benefits each year under HB 31 than it will under current law.

   b. Expenditures from Local Funds will decrease because school districts will contribute less per year, on average, to TRSL with the enactment of HB 31 than they would have contributed under current law.

3. Revenues:

   a. TRSL revenues (Agy Self-Generated) will decrease each year because school districts will contribute less per year to TRSL under HB 31 than they would have contributed under current law.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

Table B shows the estimated fiscal impact of HB 31 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

The effects on OPEB related fiscal costs and revenues during the five year measurement period are shown below in Table B and Items 2 and 3.

OPEB Fiscal Cost: Table B

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

2. Expenditures:

Expenditures by local school districts for medical benefits may increase or decrease depending on the employment status of employees and/or retirees and whether retirees pay a larger or smaller percentage of the medical premium. Eventually, however, the reemployed retiree will re-retire and the retirees share of the insurance premium will be the same it would have been had the retiree not returned to work. The state does not maintain sufficient records to enable us to determine how employer costs will be affected in individual school districts. In our opinion, the cost difference between HB 31 and current law will be negligible.

3. Revenues:

School district revenues (Local Funds) will not change materially with the enactment of HB 31 for the same reasons as cited above under Expenditures.

C. <u>Estimated Fiscal Impact − Other Government Entities (unrelated to the retirement systems or OPEB)</u>
(Prepared by Tanesha Morgan, Legislative Fiscal Office)

1. Narrative

<u>Present law</u> provides that in certain circumstances a retiree may return to work in a "critical shortage area" (defined in <u>present law</u>) without reduction of benefits. Such circumstances include returning as a certified classroom teacher, as a certified speech therapist, speech pathologist, audiologist, educational diagnostician, school social worker, or school counselor. <u>Proposed law</u> adds school psychologist to the list of certified professionals who may return to work in a critical shortage area without reduction of benefits.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. However, there may be implementation costs to make minor software modifications to existing computer programs to identify members that are rehired under this measure. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.

3. Revenues:

   There is no anticipated direct material effect on governmental revenues as a result of this measure.

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

   Table D shows the estimated fiscal impact of HB 31 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

   The “decrease” in fiscal costs shown in Table D is small to negligible in value.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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

<u>Credentials of the Signatory Staff:</u>

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.

John D. Carpenter, the Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

<u>Information Pertaining to Article (10)(29(F) of the Louisiana Constitution</u>

[X] HB 31 contains a retirement system benefit provision having an actuarial cost.

One or more school psychologists will receive a larger benefit from TRSL under HB 31 than he would have received without HB 31.

<u>Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:</u>

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

<u>Senate</u>

[ ] 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Senate Finance

[ ] 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

<u>House</u>

[ ] 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:
Dual Referral to Appropriations

[ ] 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:
Dual Referral: Ways and Means