2020 REGULAR SESSION
ACTUARIAL NOTE HB 25

House Bill 25 HLS 20RS-132 **Original** **Author: Representative Ivey** **Date: February 27, 2020** **LLA Note HB 25.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR NO IMPACT APV**	**This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.** *Lowell P. Good* **Lowell P. Good, ASA, EA, MAAA** **Actuarial Services Manager**

Bill Header: RETIREMENT/STATE SYSTEMS: Provides relative to payment of initial unfunded accrued liabilities to the Teachers' Retirement System of Louisiana by the Legislature of Louisiana.

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. Net 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 local and state 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 ***net 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 (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		$0
Other Post-employment Benefits (OPEB)		0
Total		$0
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	$0	$0
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	0	0
State Government Entities	0	0
Total	$0	$0

Bill Information

Current Law

Current law establishes the procedure for calculation of the annual employer contribution rate for all employers that participate in the Teachers' Retirement System of Louisiana (TRSL). A portion of the required annual contribution is used to pay off the original amortization base (OAB).

The present constitution creates the minimum foundation program (MFP), which is designed to provide minimum education funding for public schools in the state. The MFP distributions and other sources of funds are used by school districts to cover education-related expenses, including salaries and retirement costs for the teachers and school employees in the district as well as all other types of expenses.

Under current law, K-12 school districts and charter schools receive MFP distributions each month. Out of those funds and other sources of revenue, they pay all their expenses, including their own contributions to the retirement systems that cover their employees.

Proposed Law

HB 25 requires that, in the annual general appropriations bill, the legislature will appropriate funds to TRSL on behalf of all employers receiving funds through the minimum foundation program (MFP) formula. Furthermore, the proposed bill requires that the State Board of Elementary and Secondary Education (BESE) consider this appropriation when formulating the MFP formula and make the appropriate adjustments to the formula.

For the purpose of this Actuarial Note, we interpret this to mean that the State would (a) send a designated amount directly to the retirement system and (b) make an offsetting adjustment (i.e., a reduction) from the otherwise applicable MFP budget amount approved for funding local MFP-participating entities.

In addition, the proposed bill specifies that the amount to be appropriated and considered as described above will be sufficient to make the mid-year amortization payment on the original amortization base schedule reflected in the most recent system valuation adopted by the Public Retirement Systems Actuarial Committee.

Implications of the Proposed Changes

There is no change in the net actuarial present value of future benefit payments and expenses to the retirement system as a result of passing HB 25 because there is no effect on benefits or expenses payable from TRSL. Furthermore, there is no change in the total amount of employer contributions received by TRSL.

However, there may be individual cost-shifting among MFP-participating employers due to the change in how remaining MFP funds are distributed. For example, currently, the local TRSL-participating employers pay their required retirement contributions as a percent of covered payroll, while the MFP revenue is based primarily on per student funding. That difference in methodologies may result in some MFP/TRSL-participating employers having their MFP revenue go down by more than the TRSL-required retirement contribution goes down, and vice versa. The net effect on some individual local entities may be that they do better under this proposed bill and others do worse, on account of the different allocation methods that have been used by the MFP and TRSL.

In addition, the amount designated in the proposed bill (as specified in the adopted actuarial valuation report) is spread across, shared by and paid by all TRSL-participating employers under current law, even though some of them do not participate in the MFP, such as higher education employers.

- This could result in (a) a reduction in the TRSL-required contributions by all TRSL-participating employers, even those that do not participate in MFP (i.e., *higher-ed*) and (b) the TRSL-required contributions by those MFP-participating employers in TRSL could decrease by less than their MFP revenue would decrease.

- Conversely, under the proposed bill, the MFP funding may decrease, even for those MFP-participating employers who are not participating in TRSL (e.g., *charter schools not participating in TRSL*) and have no associated decrease in the retirement contribution.

The net effect may be that some local entities enjoy a lower TRSL contribution requirement without bearing any reduction in revenue, while others lose some MFP revenue without any reduction in retirement contributions.

Finally, there will also likely be a significant change in financial reporting for purposes of respective Comprehensive Annual Financial Statements (CAFRs) and Official Statements relating to bond issues and other disclosures which must comply with the Governmental Accounting Standards Board (GASB) accounting standards in order to be in accordance with Generally Accepted Accounting Principles (GAAP). This would occur because a portion of total TRSL net pension liability and pension expense would shift from the school districts' financial statements to the State's financial statements. This would occur due to the fact that the proposed bill requires the State to send a designed portion of the total required contribution directly to the retirement system. That direct payment, together with other conditions, is likely to result in what GASB calls a Special Funding Situation, in which the relative proportion of the System's expense and liability is recorded on the State's financial statement instead of the local TRSL-participating employer. The local TRSL-participating entities' balance sheet liability would decrease while the State's would increase significantly. This accounting impact would not affect cash budget issues, but would affect the presentation of the financial statement, especially the balance sheet.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be $0. The actuary's analysis is summarized below.

The ultimate cost of a plan is determined by the benefits which are paid out and the investment earnings. This bill does not change the benefit terms for current or future members and therefore (a) no member is expected to receive a higher benefit under the proposed law than under the current law and (b) the proposed law does not have any effect on the net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system. Therefore, there is no net actuarial cost in the aggregate. This proposed bill changes the process of collecting funds by the retirement systems. The timing of receipt by the TRSL of the total contributions might be slightly different, but is negligible and, therefore, considered as having no impact.

However, there are a few unanswered questions and potential conflicts within the proposed bill relating to how the TRSL-participating entities may be credited with contributions appropriated from the annual general appropriations bill and how the State Board of Elementary and Secondary Education could reduce the otherwise-payable MFP distributions to recognize its newly required retirement contributions directly to TRSL.

In addition, currently, the mid-year amortization payment on the original amortization base (OAB) schedule reflected in the most recent system valuation adopted by the Public Retirement Systems Actuarial Committee is the *total* OAB payment including local government entities and agencies participating in MFP and those that do not. There is currently no separation calculated and disclosed in the valuation report. If TRSL made a reasonable allocation of that *total* between MFP-participating entities and nonMFP-participating entities, it might be an improvement, but may not resolve all the questions raised above.

In summary, even though there is no net increase or decrease in total, there may be some employers whose TRSL contribution requirements may decrease by a different amount than their net MFP payments would decrease. In other words, while the total may be a net sum zero, there could be individual cost-shifting among employers.

GASB Accounting and Financial Report

The Governmental Accounting Standards Board (GASB) sets accounting and financial reporting standards for State and Local Governments. Their respective Comprehensive Annual Financial Statements (CAFRs), Official Statements relating to bond issues and other disclosures must comply with GASB standards in order to be in accordance with Generally Accepted Accounting Principles (GAAP).

The proposed bill would shift balance sheet liabilities and accounting expenses from the local MFP-participating entities and all TRSL-participating entities to the State's financial statement, even though the cash disbursement total is unchanged.

Based on GASB Statement No. 68 (e.g., paragraph 15) this payment to TRSL directly from the State causes a portion of the TRSL net pension liability (balance sheet liability) and pension expense to appear in the State's financial statements, and causes that portion to not appear on the school districts' financial statements. The remainder of the TRSL balance sheet liability and expense otherwise attributable to TRSL-participating employers will continue to appear in their financial statements because they continue to have direct obligations to pay TRSL the balance due under the proposed bill.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be $0. The actuary's analysis is summarized below.

This bill does not change the benefit terms including members' eligibility for retirement and as such there is no impact on the future Other Post-employment Benefits.

B. <u>Actuarial Data, Methods and Assumptions</u>
(Prepared by LLA)

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

C. <u>Actuarial Caveat</u>
(Prepared by LLA)

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

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

A. <u>Estimated Fiscal Impact – Retirement Systems</u>
(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.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	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

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures for the State General Fund are presented with an increase because, for the first time, it would be obligated to fund a portion of the TRSL contribution requirement directly to TRSL. This Table A relates to Fiscal Costs for the next five years that relate to the Retirement System only. So, any decrease in the State Fund's Fiscal Cost due to paying MFP-participating entities less is reflected in Table D below.
   b. Expenditures from TRSL (Agy Self Generated) are presented as zero because benefits will not change and the minor expected increase in administrative expenses is negligible.
   c. Retirement System expenditures from Local Funds will decrease under HB 25 because employers receiving MFP monies will contribute less per year to TRSL since a portion of the required contribution will be paid directly to TRSL from the appropriated amount of the annual general appropriation bill.
   d. The Annual Total Expenditures is presented as zero because the State and Local Funds, together, will pay the same amount to TRSL under the proposed law as under the current law.
   e. There may be a slight increase in administrative TRSL expenditures to allocate or re-allocate costs to be paid directly by TRSL-paying entities. However, this increase is so minor that is presented as zero in Table A.

3. Revenues:

   a. Revenues to TRSL (Agy Self Generated) are presented as zero because TRSL will collect the same amount in total (from both State and Local Funds together) under the proposed bill as under the current bill.
   b. Revenues to Local Funds are presented as zero. Any decrease in the Local Fund's Fiscal Cost revenues due to an associated reduction in their MFP formula revenue as a result of this proposed bill would be reflected in Table C below.

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

1. Narrative

   Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. 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.

OPEB Fiscal Cost: Table B

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   No measurable effects.

3. Revenues:

   No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

The proposed legislation will have the following effects on fiscal costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

Accounting and audit costs may be slightly increased as a result of the change in GASB reporting requirements; however, such additional costs are not expected to have a direct, material effect on local government expenditures.

3. Revenues:

Revenues to Local Funds will decrease as a result of reductions in MFP funding, since a portion of the MFP funding relating to employer contributions will now be made directly to TRSL. This reduction in revenue corresponds to the reduction in Local Fund expenditures presented on Table A above. Depending on the methodology used by BESE to adjust the MFP, the proposed bill may or may not result in cost shifting among individual local government employers.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by John Carpenter, Legislative Fiscal Officer)

1. Narrative

Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	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

The proposed legislation will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

This measure is anticipated to decrease MFP expenditures for BESE by approximately $230 M, which is equal to the mid-year amortization payment of OAB. The bill provides that this payment shall be appropriated by the legislature directly to TRSL, instead of being appropriated to BESE for distribution to the local school districts through the MFP. The corresponding increase in TRSL's expenditures is reflected in Table A, for a net zero impact to the state.

Note: The bill does not specify that the reduction from the MFP should only be for the local school district's portion of OAB. Therefore, this note assumes BESE's appropriation would be reduced in an amount equal to 100% of the OAB. Historically, the local school districts have been responsible for paying approximately 75% of the OAB and Higher Education has been responsible for paying the remaining 25%.

3. Revenues:

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

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Credentials of the Signatory Staff:

Lowell P. Good is the Actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

☐ HB 25 contains a retirement system benefit provision having an actuarial cost.

No member of the Teachers' Retirement System of Louisiana would receive a larger benefit with the enactment of HB 25 than what he would have received without HB 25.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 regular session.

Senate			House		
☐	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**	☐	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**
☐	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**	☐	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 Mea**