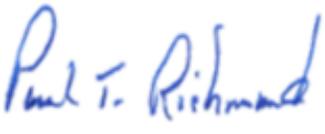


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 82**

<p>House Bill 82 HLS 14RS-728 Original</p> <p>Author: Representative Bob Hensgens</p> <p>Date: March 12, 2014</p> <p>LLA Note HB 82.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR +\$250,000 FC LF 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 82 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: RETIREMENT/TEACHERS: Authorizes a retired member of the Teachers' Retirement System of Louisiana who does not have a valid teaching certificate to return to work as a substitute instructor and continue to receive retirement benefits.

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	\$ 3.2 million
Total Five Year Fiscal Cost	
Expenditures	Increase
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	\$ 3.2 million
Other Post Retirement Benefits	See Actuarial Cost Analysis
Total	See Actuarial Cost Analysis

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

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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	250,000	250,000	250,000	250,000	250,000	1,250,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	\$ 250,000	Increase	Increase	Increase	Increase	Increase

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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Dual Referral:

Senate

13.5.1 \geq \$100,000 Annual Fiscal Cost

13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

6.8(F) \geq \$500,000 Annual Fiscal Cost

6.8(G) \geq \$500,000 Annual Tax or Fee Change

Bill Information:

Current Law

Current law prohibits a retired member of the Teachers' Retirement System of Louisiana (TRSL) from receiving his retirement benefit while he is reemployed in a position covered by TRSL. Under R.S. 11:710(A), there are exceptions to such prohibition.

Under current law, a classroom teacher is defined as any employee whose position of employment requires a valid Louisiana teaching certificate and who is assigned the professional activities of instructing pupils in courses in classroom situations for which daily pupil attendance figures for the school system are kept.

Current law allows a retired certified classroom teacher to return to work as a substitute classroom teacher and continue to receive full retirement benefits while reemployed provided that his earnings not exceed 25% of his retirement benefit.

Proposed Law

The proposed legislation authorizes a retired non-certified member of TRSL to return to work as a substitute classroom non-certified instructor. Such a retiree may continue to receive full retirement benefits while reemployed provided that his earnings not exceed 25% of his retirement benefit.

Implications of the Proposed Changes

HB 82 provides that a retired member of TRSL who does not possess a valid teaching certificate may return to work as a substitute classroom instructor and continue to receive a retirement benefit.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Legislation that allows a member of TRSL to collect a pension and continue to work in a position requiring active membership in the retirement system will have an actuarial cost if such legislation induces such a member to retire earlier than he would have otherwise. By retiring early, TRSL will be required to pay a pension to such a member for a longer period of time and contributions made to the system on the member's behalf will be reduced. This will be offset to a minor extent because the member will forego additional benefit accruals that he would otherwise have earned.

There is a cost to HB 82. Under the proposed law, some members will base their decision to retire in whole or in part on the fact that they can return to work and supplement their income. They can be partially working and fully retired. Without HB 82, some of these same members would have remained fully employed without collecting a pension benefit.

Prior to the enactment of HB 519 which became Act 921 of 2010, a member of TRSL was allowed to retire, return to work, and collect both a pension and a paycheck 12 months after his retirement date. Benefits payable to a reemployed retiree were suspended by TRSL only if the retiree was working during the 12 month period immediately following his date of retirement.

This rule, which became known as the "Two Check Rule", had been in place for about 10 years. Prior to the enactment of the Two Check Rule, there were only about 3,000 retirees in a re-employment status each year. In 2008-09 there were about 7,500 re-employed retirees. Clearly, retirement patterns changed as a result of the Two Check Rule. Many workers elected to retire, returned to work, and then after one year earned a full salary and at the same time collected a full pension.

Act 921 of the 2010 session eliminated the Two Check Rule and essentially made it difficult for a member of TRSL to collect a salary and a pension at the same time. Although the Two Check Rule was preserved under very limited circumstances, it was anticipated that Act 921 would result in members delaying retirement until they were truly ready to leave the school or classroom. The actuarial note for Act 921 estimated annual savings five years after the enactment to be about \$108 million. The estimate was based on the additional contributions that would be made to TRSL and the reduction in benefit payments that would be made from the retirement system due to workers postponing retirement.

HB 82 will eliminate some of the savings estimated for Act 921. If HB 82 is enacted, we assume some workers will elect to retire earlier than they would have otherwise. Without HB 82, a TRSL member may not be able to afford to retire. But with the ability to supplement his or her income from returning to work, retirement may appear to be affordable. The fundamental question is, "How many members will be induced to retire earlier than they would have otherwise and what is the cost associated with the inducement?" The earnings limitation of HB 82 is quite restrictive. However, it is likely that some members will be induced to retire earlier than they would have otherwise because they can enhance their retirement income by 25% through reemployment.

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If HB 82 is enacted, the maximum that a career member of TRSL may work after retirement is 45 days, assuming a 180-day school year, a retiree with 40 years of service and benefit equal to 100% of his final average compensation. Although the earnings limitation of HB 82 is quite restrictive, it still gives a member of TRSL the opportunity to plan his retirement around his ability to work post retirement and supplement his retirement income. Therefore, in preparing this actuarial note, we have assumed the following:

1. No member will continue to work beyond the date that his benefit would otherwise be suspended.
2. Some members will plan their retirement with the idea that they can return to work and supplement their retirement income.

The number of members who will be induced to retire earlier than they would have otherwise as a result of HB 82 cannot be predicted with any degree of certainty. However, if 10 members retiring in a given year retire one year earlier than they would have otherwise, the annual retiree payroll for TRSL will increase \$250,000. This is based on the following information:

1. On average, 3,500 members of TRSL retire each year.
2. Ten of these retirees are induced to retire one year earlier than they would have otherwise.
3. The average annual pension for those induced to retire early is \$25,000.

Therefore, the estimated annual cost is \$250,000 (10 x \$25,000).

The actuarial present value of future benefit payments will increase approximately \$3.2 million. This is based on the assumption that 10 additional retirees will be collecting benefits each year in the future under HB 82 that would not have been collected otherwise.

Other Post Retirement Benefits

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

1. OGB revenues may increase or decrease as a result of HB 82.
2. Employer premium expenditures may increase or decrease as a result of HB 82.

Analysis of Fiscal Costs

HB 82 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from TRSL (Agy Self-Generated) will increase \$250,000 a year in order to pay benefits that would have otherwise not have been paid. Administrative expenses in FYE 2015 have been estimated to be negligible.
2. Expenditures from Local Funds will increase to the extent that K-12 members of TRSL are induced to retire earlier than they would have otherwise. Unanticipated TRSL expenditures will lead to higher employer contribution requirements.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contribution must be larger to accommodate the estimated increase in annual benefit costs.

The sum of cost increases identified under Expenditure Item 2 is equal to the increase in TRSL revenue.

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 prepared by the office of the Legislative Auditor which will be presented to PRSAC on March 18, 2014.

Actuarial Caveat

There is nothing in HB 82 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 to render the actuarial opinion contained herein.