2014 REGULAR SESSION
ACTUARIAL NOTE SB 21

Senate Bill 21 SLS 14RS-47 **Engrossed with Senate Retirement Committee Amendment #1246** **Author: Senator Guillory, et. al.** **Date: March 27, 2014** **LLA Note SB 21.02** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **EG +$185,065,866 APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 21 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: TEACHERS RETIREMENT. Grants a permanent benefit increase to eligible retirees in accordance with statutory procedure (2/3 - CA10s29 (F)) (6/30/14)

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	$185,065,866
Total Five Year Fiscal Cost	
Expenditures	$200,967,991
Revenues	$106,156,516

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.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$185,065,866
Other Post Retirement Benefits	$0
Total	$185,065,866

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	$ 3,269,621	$ 3,269,621	$ 3,269,621	$ 3,269,621	$ 13,078,484
Agy Self Generated	19,869,534	19,440,021	18,986,234	18,508,515	18,007,171	94,811,475
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	23,269,508	23,269,508	23,269,508	23,269,508	93,078,032
Annual Total	$ 19,869,534	$ 45,979,150	$ 45,525,363	$ 45,047,644	$ 44,546,300	$ 200,967,991

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	26,539,129	26,539,129	26,539,129	26,539,129	106,156,516
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	$ 26,539,129	$ 26,539,129	$ 26,539,129	$ 26,539,129	$ 106,156,516

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Bill Information:

Current Law

Article 10(29)(F), enacted by the legislature and the voters in 2010, states "Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment. No such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature." Based on our reading of the amendment, our discussions with General Council for the LLA, and our discussions with legislative staff, we have concluded for the purposes of this actuarial note, that future transfers of investment gains to the Experience Account will occur until the balance in the Experience Account is equal to the cost of a 6% benefit increase for eligible retirees. However, because future COLA grants will require the introduction of a bill, approval by two-thirds of the House and Senate, and the signature of the governor, we assume that COLA grants are ad hoc, and are not automatic.

Current law provides a legal template that the legislature may choose to adopt in the enactment of permanent benefit increases (PBI). This template specifies eligibility criterion which is generally age 60 with one year of retirement and the basis for a PBI grant which is the CPI-U. There is no requirement that PBI legislation follow the template. Nor is there any guarantee, that PBIs in the future will even be based on the balance in the Experience Account.

The PBI template provides the following:

Eligibility:

The following retirees and beneficiaries of the Teachers' Retirement System of Louisiana (TRSL) will be eligible for a PBI.

1. Each retiree of TRSL who satisfies all of the following criteria on June 30, 2014:

   - Has received a benefit for at least one year, and
   - Has attained at least age 60.

2. Each non-retiree beneficiary (including each survivor of a deceased active member) receiving a benefit on June 30, 2014, who satisfies all of the following criteria:

   - The deceased member or beneficiary or both combined have received benefits for at least one year, and
   - The deceased member would have been at least age 60 had he lived.

3. Each disability retiree and each beneficiary who is receiving benefits based on the death of a disability retiree, who also on June 30, 2014, has been receiving benefits for at least one year.

Permanent Benefit Increase

- Based on the template law, each eligible retiree and beneficiary would be eligible for a 1.5% PBI on the portion of a retirees/beneficiary's benefit that is less than $93,755.

Proposed Law

SB 21 provides that template law will apply effective June 30, 2014.

If any of the instruments which originated as SB 16, SB 18, and SB 19 of the 2014 Regular Session of the Legislature does not become effective, this Act shall be null and void and of no effect.

Implications of the Proposed Changes

As a result of SB 21, amounts in the TRSL Experience Account will be used to provide permanent benefit increases for certain retirees and beneficiaries. The maximum benefit increase will be the lesser of 1.5% x the current annual benefit and $1,406.33.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The actuarial present value of future benefits of TRSL will increase $185,065,866 if SB 21 is enacted. Additional information is shown below:

Eligible Members	Number	Increase in Accrued Liability
Retirees with one year of retirement age 60 and older	51,440	$ 167,710,747
Beneficiaries and Survivors	5,736	12,046,163
Disability Retirees	3,898	5,308,955
Total	61,074	$ 185,065,866

The balance in the Experience Account as of June 30, 2013, was $219,736,906. Therefore, the unfunded accrued liability of the Experience Account was a negative $219,736,906. A surplus of assets exists over the accrued liability of the Experience Account (see Table 1 below).

The following transactions will occur within TRSL if SB 21 is enacted:

Table 1
Accounting for the PBI Grant under SB 21
(millions of dollars)

	Regular Benefit Account			Experience Account			Total		
	AL	Assets	UAL	AL	Assets	UAL	AL	Assets	UAL
6/30/14 Balance	$ 26,017.7	$ 14,669.2	$ 11,348.5	$ 0.0	$ 219.7	$ (219.7)	$ 26,017.7	$ 14,888.9	$ 11,128.8
PBI Grant	185.1	185.1	0.0	0.0	(185.1)	185.1	185.1	0.0	185.1
Balance after PBI Grant	$ 26,202.8	$ 14,854.3	$ 11,348.5	$ 0.0	$ 34.6	$ (34.6)	$ 26,202.8	$ 14,888.9	$ 11,313.9

1. The accrued liability (AL) of TRSL Regular Benefit Account will increase $185.1 million as benefit payments to eligible participants are increased 1.5%.

2. Assets in the Regular Benefit Account of TRSL will increase when $185.1 million is transferred from the Experience Account to the Regular Benefit Account.

3. The unfunded accrued liability relative to the Regular Benefit Account does not change because TRSL is receiving assets from the Experience Account that are sufficient to cover the additional liability incurred for larger benefit payments to eligible participants.

4. However, the unfunded accrued liability that TRSL has relative to the Experience Account will increase. Before SB 21 is enacted, the TRSL unfunded accrued liability relative to the Experience Account was a negative $219.7 million. After SB 21 is enacted, the unfunded accrued liability falls to a negative $34.6 million.

5. The total accrued liability for TRSL has increased due to the PBI grant. Total assets have remained the same. Therefore, the total UAL for the system will increase $185.1 million.

6. The increase in total UAL must be amortized with level payments of $26.5 million per year over ten years in order to comply with Article (10)(29)(F) of the Louisiana constitution.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 21 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 21 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will increase $3,269,621 a year beginning FYE 2016 to amortize the additional UAL created by SB 18.

2. Expenditures from TRSL (Agy Self-Generated) over the next five years will increase $94,811,475, an average of $18,962,295 a year as larger pension benefits are distributed.

3. Expenditures from Local Funds will increase $23,269,508 a year beginning FYE 2016 to amortize the additional UAL created by SB 18.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase $26,539,129 a year beginning FYE 2016.

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.

Exceptions: We have adjusted the results of our projected June 30, 2014 valuation, which is the benchmark for this actuarial note, to reflect our conclusions stated below:

1. No UAL should have been created when assets were transferred to the Experience Account on June 30, 2013. This transfer merely shifted assets from one fund to another within the body of the TRSL trust.

2. The PBI grant under SB 21 will create a new UAL for TRSL equal to $185.1 million. The accrued liability of the TRSL Regular Benefit Account does not change. However, the surplus of assets in the Experience Account decreases from $219.7 million to $34.6 million. Therefore, the total UAL for the system increases by $185.1 million.

Actuarial Caveat

There is nothing in this bill that has or 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		House	
x	13.5.1: Annual Fiscal Cost ≥ $100,000	x	6.8(F)(1): Annual State Fiscal Cost ≥ $100,000
	13.5.2: Annual Tax or Fee Change ≥ $500,000		6.8(F)(2): Annual State Revenue Reduction ≥ $500,000
			6.8(G): Annual Tax or Fee Change ≥ $500,000