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## DIGEST

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Robideaux

HB No. 1225

**Abstract:** Requires the four state retirement systems (La. State Employees' Retirement System (LASERS); Teachers' Retirement System of La. (TRSL); La. School Employees' Retirement System (LSERS); and State Police Retirement System (STPOL)) to apply certain amounts of excess investment returns to their outstanding debt and limits creation of additional liabilities through the granting of benefit increases.

Proposed law generally requires increased payments to outstanding debts of state retirement systems and restricts the creation of additional system liabilities by limiting the amount and frequency of benefit increases.

### Debt Payments from Excess Returns

Proposed law, as more fully explained below, generally requires each system to apply to its oldest debt a portion of each year's excess investment returns. The amount paid will increase each year in proportion to the growth in the system's actuarial value of assets.

Present law (R.S. 11:102) establishes the calculation of employer contribution rates for state retirement systems. A portion of the rate is calculated based on that year's required amortization payment on outstanding system debt. Proposed law retains present law.

### Teachers and State Employees

Both LASERS and TRSL have remaining unfunded accrued liability that existed as of June 30, 1988 (IUAL). For each system, the IUAL debt has been consolidated into an amortization base called the Original Amortization Base (OAB), and the debts of the system incurred between 1988 and 2009 have been consolidated into an amortization base called the Experience Account Amortization Base (EAAB).

Present law for LASERS (R.S. 11:102.1) requires the first \$50 million of the system's excess returns to be applied to the OAB. Further requires the next \$50 million of excess returns to be applied to the EAAB. Present law for TRSL (R.S. 11:102.2) requires the first \$100 million of the system's excess returns be applied to the OAB. Further requires the next \$100 million of excess returns to be applied to the EAAB.

Proposed law, starting with the June 30, 2015, valuation, indexes these required payments to the

percentage increase in the system's actuarial value of assets for the preceding year. Each subsequent year the maximum amount to be applied by the system to its OAB and EAAB shall equal the prior year's maximum payment increased by the percentage increase in the actuarial value of assets, if any.

For 2014 only, proposed law lowers the required payments toward the LASERS OAB and EAAB to \$25 million each. Requires excess returns between these thresholds and the 2015 hurdle of \$50 million each to be amortized as an employer credit over 5 years.

For 2014 only, proposed law lowers the required payments toward the TRSL OAB and EAAB to \$50 million each. Requires excess returns between these thresholds and the 2015 hurdle of \$100 million each to be amortized as an employer credit over 5 years.

Proposed law further requires that upon complete liquidation of either the OAB or the EAAB, the system shall continue to apply to the remaining debt the same indexed payments it would have made to the fully liquidated debt. Upon complete liquidation of both the OAB and the EAAB, the system shall continue to pay the full amount of indexed payments to its oldest outstanding debt. Excludes particularized liabilities and employer contribution variance liabilities from the oldest outstanding debt.

#### School Employees and State Police

Both LSERS and STPOL have completely paid their IUAL. Proposed law requires that in any year that LSERS or STPOL has excess investment returns above its actuarially assumed rate of return, the system must apply a certain portion of such returns to its oldest outstanding debt. Starting with the June 30, 2015, valuation, requires LSERS to pay the first \$15 million of such excess returns to its oldest debt. Starting July 1, 2015, requires STPOL to pay the first \$5 million of such excess returns to its oldest debt. Further requires that the amount paid each subsequent year be increased by the percentage increase in the system's actuarial value of assets for the preceding year. Each year the maximum amount to be applied by the system to its oldest debt shall equal the prior year's maximum payment increased by the percentage increase in the actuarial value of assets, if any. Once the oldest debt has been completely liquidated, requires the system to apply remaining sums and subsequent payments to the next oldest debt, until all system debts are completely liquidated. Excludes employer contribution variance liabilities from the oldest outstanding debt.

For 2014 only, requires LSERS to pay the first \$7.5 million of excess returns to its oldest debt. Further requires that excess returns above this amount and below the 2015 hurdle of \$15 million be amortized as an employer credit over 5 years.

For 2014 only, requires STPOL to pay the first \$2.5 million of excess returns to its oldest debt. Further requires that excess returns above this amount and below the 2015 hurdle of \$5 million be amortized as an employer credit over 5 years.

#### Amortization and Reamortization of Gains and Losses

Present law for LASERS and TRSL provides for reamortization of remaining debt after application of excess funds to the OAB or the EAAB of the system. Proposed law provides that beginning with the June 30, 2014, valuation, such debts shall not be reamortized after application of payments pursuant to present and proposed law unless a system is 85% funded or greater.

Proposed law for LSERS and STPOL provides that debts shall not be reamortized after application of payments pursuant to proposed law unless the system is 85% funded or greater.

Present law for all four state systems provides that gains and losses shall be amortized as level dollar payments over a period of 30 years. Proposed law provides that once a system attains 85% funded, all future gains and losses, irrespective of the system's funded percentage, shall be amortized over a period of 20 years.

Proposed law further requires that for the June 30, 2014 valuation only, all gains not applied directly to debt or credited to the experience account shall be amortized over a period of five years.

#### All Four State Systems

Present law establishes an experience account in each state system. For LSERS and STPOL, the accounts are credited with one half of the system's excess returns above its assumed actuarial rate of return. For LASERS and TRSL, the accounts are credited with one half of the excess returns above the system's assumed actuarial rate of return after payments are made to the OAB and the EAAB.

Proposed law, as explained in more detail below, modifies the amount of excess returns that may be credited to a system's experience account. Further requires that any amounts not credited to the experience account because of limits in proposed law be amortized as a credit towards the employer contribution rate.

#### Experience Accounts

Experience accounts are accounts established pursuant to present law to fund permanent benefit increases for retirees of state systems.

Proposed law requires debts created by funds being moved into an experience account to be amortized over a 10-year period starting with the June 30, 2019, valuation.

Present law authorizes credits to a system's experience account in an amount up to that necessary to grant two permanent benefit increases. Proposed law retains present law for a system that is 80% funded or better. If a system is less than 80% funded, proposed law authorizes credits up to the amount necessary to grant one permanent benefit increase pursuant to proposed law.

Present law provides that, to the extent permitted by the two benefit increase cap, the experience account is credited with interest attributable to the amount in the account during the prior year.

Proposed law provides that interest may only be credited up to the applicable cap. Further provides that if a system dips below 80% funded, no interest may be credited to the account while the reserves in the account exceed the one benefit increase cap.

Present law provides that the account be debited for the portion of the system's net investment loss attributable to the balance in the account during the prior year. Proposed law retains present law.

Present law provides that a benefit increase funded by the account is limited to the lesser of 3% or the consumer price index (U.S. city average for all urban consumers (CPI-U)) for the preceding calendar year.

Proposed law provides that a benefit increase funded by the account is limited to the lesser of the following:

- (1) The CPI-U for the twelve month period ending on the system's valuation date.
- (2)
  - (a) If the system is 80% funded or greater, 3%.
  - (b) If the system is at least 75% funded but less than 80% funded and the legislature has not granted a benefit increase in the preceding year, 2.5%.
  - (c) If the system is at least 65% funded but less than 75% funded and the legislature has not granted a benefit increase in the preceding year, 2%.
  - (d) If the system is at least 55% funded but less than 65% funded and the legislature has not granted a benefit increase in the preceding year, 1.5%.
  - (e) If the system is less than 55% funded, no benefit increase shall be granted.

Present law for LASERS and TRSL provides that if the system does not attain an actuarial rate of return of at least 8.25%, a benefit increase pursuant to present law is limited to the lesser of 2% or the CPI-U. Proposed law retains present law.

Present law for LSERS provides that if the system does not attain its actuarial rate of return, a benefit increase pursuant to present law is limited to the lesser of 2% or the CPI-U. Proposed law changes the hurdle from the system's actuarial rate of return to an actuarial rate of return of 7.25%.

Present law for STPOL provides that if the system does not attain its actuarial rate of return, a benefit increase pursuant to present law is limited to the lesser of 2% or the CPI-U. Proposed law changes the hurdle from the system's actuarial rate of return to an actuarial rate of return of 7%.

Present law for LASERS and TRSL further provides that no benefit increase shall be granted in a year in which the system is less than 80% funded and the system fails to meet its actuarially

assumed rate of return. Proposed law retains present law.

Proposed law authorizes each system to grant a partial benefit increase, regardless of funded ratio or achieved rate of return, if all of the following criteria are met:

- (1) No benefit increase was granted in the preceding fiscal year.
- (2) The experience account balance in the preceding fiscal year had reached its maximum reserve for that valuation year.
- (3) The experience account balance in the current fiscal year is no longer enough to fund the maximum increase due to either or both of the following:
  - (a) Growth in the cost of the increase based on changes in the pool of eligible recipients, growth in the benefit amount due to the indexing of the CPI-U, or both.
  - (b) Credits to the account in the current fiscal year, if any, are insufficient to cover the growth in the cost of the increase.

If all of the criteria in proposed law are met, the systems are authorized to provide an increase equal to the amount the balance in the experience account will fully fund rounded down to the lower 0.1%.

Present law for each system establishes a portion of each retiree's benefit upon which a benefit increase is calculated. The portions are as follows:

- (1) For LASERS and TRSL, the amount is the first \$70,000 of a retiree's benefit, indexed to the CPI-U for the prior calendar year.
- (2) For LSERS and STPOL, the amount is the first \$85,000 of a retiree's benefit, indexed to the CPI-U for the prior calendar year.

Proposed law retains present law for all benefit increases granted prior to July 1, 2015.

Proposed law provides that for any benefit increase granted on or after July 1, 2015, the increase shall be calculated on the first \$60,000 of a retiree's benefit, indexed to the CPI-U for the twelve month period ending on the system's valuation date.

Present law for STPOL authorizes a supplemental benefit increase of 2% for retirees and beneficiaries who are age 65 and older. Proposed law retains present law.

Present law provides that the amount of such supplemental benefit shall be based on the first \$85,000 of a retiree's annual benefit, indexed to the CPI-U for the prior calendar year. Proposed law retains present law for any such benefit granted prior to July 1, 2015.

Proposed law further provides that for any supplemental increase granted on or after July 1, 2015, the increase shall be calculated on the first \$60,000 of the retiree's benefit, indexed to the CPI-U for the twelve month period ending on the system's valuation date.

#### Authorization of Benefit Increases

Present constitution (La. Const. Art. X, Sec. 29) requires alteration or enactment of benefit provisions for members of a public retirement system, plan, or fund subject to legislative authority by an Act of the legislature.

Present law in each system's experience account provides that the board of trustees grant the benefit increase authorized by present law. Further provides that the legislature approve the increase. Proposed law retains present law.

Present constitution provides that a benefit provision with an actuarial cost must receive a two-thirds vote of the elected members of each house of the legislature in order to become effective.

Present law relative to each system's experience account provides that a benefit increase be enacted by adoption of a resolution by majority vote of the elected members of each house of the legislature. Proposed law repeals present law.

#### Reports and Studies

Proposed law requires each state retirement system to submit a report to the House and Senate Committees on Retirement detailing the administrative and actuarial procedures that will be used to implement the Act. Requires the policy to be submitted no later than Nov. 14, 2014.

Proposed law requires the retirement systems and legislative staff to study the future volatility in then-existing amortization bases at the close of 2018-2019 fiscal year and to report findings to the Public Retirement Systems' Actuarial Committee.

Effective if and when SB Nos. 16, 18, 19, and 21 of the 2014 RS become effective.

(Amends R.S. 11:102(B)(3)(d)(v)-(viii), 102.1(B)(3)(b), (4) and (5), and (C)(4) and (5), 102.2(B)(3)(b) and (4) and (C)(4) and (5), 542(A)(2) and (3), (C)(1)-(3), and (F)(1), 883.1(A)(2) and (3), (C)(1)-(3), (F), and (G)(1), 1145.1(A), (C)(1)-(3), and (D), and 1332(A), (C)(1)-(3), (D), and (F); Adds R.S. 11:102.3, 542(G), 883.1(H), 1145.1(F), and 1332(G))

## Summary of Amendments Adopted by House

Committee Amendments Proposed by House Committee on Retirement to the original bill.

1. Adds provisions to each system requiring a 10-year amortization for debt established by removing money from the general pool of assets and crediting it to the experience account.
2. Adds provision authorizing each system to grant a partial benefit increase under certain circumstances.
3. Excludes particularized liabilities (for LASERS and TRSL) and employer contribution variance debts (for all four systems) from required payments on "oldest" debt of the system.
4. Removes provision requiring joint report by systems to the Public Retirement Systems' Actuarial Committee.
5. Adds provision requiring joint report by systems to the House and Senate Committees on Retirement.
6. Removes proposed law changes with respect to the role of system boards in granting benefit increases.
7. For LSERS and STPOL, adds provisions establishing each system's current assumed rate of return as a threshold for granting a benefit increase above 2%.
8. Removes provisions restricting granting of benefit increases to every other year when the system is above 85% funded.

## House Floor Amendments to the engrossed bill.

1. Delays for five years implementation of the 10-year amortization period for gains allocated to the experience account.
2. Removes provision applying amounts not credited to the experience account to the oldest outstanding debt of the system.
3. For the first year of implementation, amortizes all gains not applied to debt or the experience account over a period of 5 years.
4. For the first year of implementation, reduces the debt payment hurdles in proposed law by 50%.
5. Adds provision authorizing reamortization after application of debt payments once a

system is at least 85% funded.

6. Adds provision reducing the amortization period for all gains and losses from 30 years to 20 years once a system first attains a funded percentage of 85.
7. Removes requirement that the four systems submit a joint report detailing system procedure and policy that will be used to implement the Act.
8. Adds provision requiring the systems to submit individual reports detailing administrative and actuarial processes utilized in implementation of the Act.
9. Adds provision requiring system and legislative staff to study the future volatility of existing amortization schedules at the close of the 2018-2019 fiscal year and report findings to the Public Retirement System's Actuarial Committee.
10. Lowers the funding threshold above which a system may credit funding for two COLAs to the experience account from 85% to 80%.
11. Lowers the funding threshold above which a system may grant a full 3% COLA without restriction from 85% to 80%.