2014 REGULAR SESSION
ACTUARIAL NOTE SB 30

Senate Bill 30 SLS 14RS-159
Reengrossed with House Floor Amendment #5717

Author: Senator Page Cortez

Date: May 30, 2014

LLA Note SB 30.04

Organizations Affected:
Louisiana State Employees' Retirement System

REF $4,523,091 APV

The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 30 provides compliance with the requirements of R.S. 24:521.

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Bill Header: STATE EMPLOYEE RET. Provides for technical corrections. (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	$4,523,091
Total Five Year Fiscal Cost	
Expenditures	$4,659,563
Revenues	$4,659,563

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	$4,523,091
Other Post Retirement Benefits	Increase
Total	$4,523,091

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	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	1,000,000	945,115	904,816	904,816	904,816	4,659,563
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 1,000,000	$ 945,115	$ 904,816	$ 904,816	$ 904,816	$ 4,659,563

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	1,000,000	945,115	904,816	904,816	904,816	4,659,563
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	1,000,000	945,115	904,816	904,816	904,816	4,659,563

<u>Bill Information:</u>

Current Law

Current law provides for the following:

1. **§446(F)** − If a member selects any form of benefit other than a joint and survivor benefit and if the member fails to provide an appropriately executed spousal consent to such form of benefit, then LASERS shall establish the benefit as if the member had selected the Option 3 joint and survivor annuity.

2. **§450(B)** − An employee who continues in employment after the end of the DROP period must resume making employee contributions to the system. Current law specifies that for certain public safety employees, the employee contribution rate will be that prescribed in current law.

3. **§471.1(G)** − If a member dies, even after retirement, eligible minor children shall receive specified survivor benefits. This provision pertains to members first employed on or after January 1, 2011.

Current law also provides for a "primary component" benefit structure and a "secondary component" benefit structure for certain members of LASERS who are employed by the Department of Public Safety and Corrections (DPS&C). Employees hired before January 1, 2002 became members of the Primary Component and those hired on or after that date became members of the Secondary Component. Pension benefit provisions applicable to Primary and Secondary members are summarized below:

Benefit Provisions	**Primary Members**	**Secondary Members**
Eligibility for Regular Retirement	*If Employed before 8/15/1986:* • Any age with 20 years of service • Age 60 with 5 years of service *If Employed on or after 8/15/1986:* • Age 50 with 20 years of service • Age 60 with 5 years of service	• Any age with 25 years of service • Age 60 with 5 years of service
Benefit Formula	Benefit = 2.5% x Service x FAC	Benefit = 3 1/3% x Service x FAC
FAC = Final Average Compensation		

A member of the Primary Component is allowed to become a member of the Secondary Component by submitting an application to the LASERS board of trustees in the same manner as members who transfer from another retirement system. A Primary member who elects to transfer to the Secondary Component will be eligible to retire in accordance with requirements applicable to Secondary members.

The benefit formula applicable to such a transferred member depends on whether he elected to pay the actuarial cost to upgrade the benefit accrual rate applicable to service credited prior to his transfer date.

Transfer Election	**Benefit Formula**
Elected to Pay the Actuarial Cost to Upgrade the Benefit Accrual Rate for Pre Transfer Service	Benefit = 3 1/3% x Total Service x FAC
Elected ***Not*** to Pay the Actuarial Cost to Upgrade the Benefit Accrual Rate for Pre Transfer Service	Benefit = (2.5% x Pre Transfer Service + 3 1/3% x Post Transfer Service) x FAC

Current law provides for the "Adult Probation and Parole Officer Retirement Fund", a special fund in the state treasury. Monies are added to the fund annually from fees charged to parolees. Monies are accumulated in the fund until the legislature provides for enhanced benefits for adult probation and parole officers who have service credit in the Primary Component.

Proposed Law

SB 30 revises current law as summarized below:

1. **§446(F)** − SB 30 clarifies that LASERS will make the selection of the Option 3 annuity at the time of the member's retirement.

2. **§450(B)** − SB 30 clarifies that all employees (not just certain public safety employees) continuing employment after exiting DROP will resume making employee contributions in accordance with rates specified in the law.

3. **§471.1(G)** − SB 30 provides that eligible children (not eligible *minor* children) will receive specified survivor benefits. As a result, adult handicapped children will be eligible for survivor benefits.

SB 30 also revises current law to provide additional benefits to adult probation and parole officers who are currently members of the Primary Component or once were members of the Primary Component but elected to transfer to the Secondary Component. The following rules will apply to these officers:

1. Officers Who Are Primary Members:

   a. Primary retirement eligibility rules will apply.

   b. Benefit formula will be changed to:

      Benefit = (3.0% x Service before 7/1/2014 + 3 1/3% x Service on or after 7/1/2014) x FAC

2. Officers Who Are Secondary Members on June 30, 2014, Who Transferred from Primary without an Upgrade in the Benefit Accrual Rate

   a. Secondary retirement eligibility rules will apply.

   b. Benefit formula will be changed to:

      Benefit = (3.0% x Service before Transfer Date + 3 1/3% x Service on or after Transfer Date) x FAC

As a result of SB 30, normal costs and the unfunded accrued liabilities for LASERS will increase. Increases will occur relative to the following employee groups:

1. Probation and parole officers who are currently members of the Primary Component.

   a. An increase in normal costs will occur.
   b. An increase in the unfunded accrued liability will occur.

2. Probation and parole officers who are currently members of the Secondary Component who once were members of the Primary Component, but who did not elect to pay for an upgrade in service credits.

   - An increase in the unfunded accrued liability will occur.

SB 30 provides rules to ensure a source of funding for the benefit improvements made in the bill. These rules are summarized below:

1. As a result of the benefit improvements under SB 30, employer contributions for LASERS will increase. The increase in normal costs and the increase in contributions attributable to the increase in the unfunded accrued liability will be calculated by LASERS and financed from monies in the Adult Probation and Parole Officers Retirement Fund (the Fund).

2. The unfunded accrued liability created by the benefit provisions of SB 30 will be measured effective with the June 30, 2014, actuarial valuation for LASERS. The UAL so determined must be amortized over a period of 10 years in accordance with the provisions of Article 10 Section 29(F) of the Louisiana Constitution. The first such amortization payment will be due March 30, 2015.

3. Normal costs will be larger for as long as any member of LASERS affected by SB 30 remains actively employed. Normal costs will decrease over time as these members retire.

4. $1,000,000 will be transferred on or before March 30, 2015, from the Fund to LASERS. Additional transfers are scheduled to occur on July 1, 2015, October 1, 2015, January 1, 2016, and April 1, 2017. Quarterly transfers are scheduled to occur at the beginning of each quarter thereafter.

5. The March 30, 2015, transfer will first be used by LASERS to offset or pay for the increase in normal cost for FYE 2015 attributable to the benefit improvement provisions of SB 30.

6. Any remaining amounts of the March 30, 2015, transfer shall next be used to offset or pay for the amortization payment for FYE 2015 associated with the increase in UAL created by the benefit provisions of SB 30.

7. Any remaining amounts of the March 30, 2015, transfer shall be used to reduce the outstanding balance on June 30, 2015, of the UAL created by the benefit provisions of SB 30.

8. The UAL balance on June 30, 2015, shall be re-amortized over a nine year period.

9. For each year after FYE 2015, the Treasurer will transfer to LASERS at the beginning of every quarter the balance in the Fund exceeding $50,000. These amounts will be used to pay for the additional normal costs for that year and the UAL payment due for that year. Any remaining amounts will be used to reduce the UAL at the end of the year.

10. This process will be repeated annually until additional normal costs no longer apply and the UAL attributable to the benefit increases of SB 30 is fully liquidated.

11. Any unpaid portion of amortization or normal cost payment provided for in SB 30 for a particular fiscal year shall be included in the next year's system valuation as part of an individualized calculation to be paid from the Fund.

Until the UAL attributable to the benefit increases provided under SB 30 is fully funded, the Fund cannot be used for any other purpose. Once the UAL is funded, the Fund may be used to defray the costs of supervision of persons on probation or parole including the normal cost of retirement benefits for employees of the department who are members of LASERS.

Implications of the Proposed Changes

SB 30 makes three remedial corrections to current law.

SB 30 also improves the benefit formula applicable to members of the Primary Component, and certain members of the Secondary Component, of LASERS. A source of funding for these improvements is also provided.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

There are no actuarial costs associated with the remedial changes made by SB 30.

Eighteen adult probation and parole officers who are members of the Primary Component sub-plan of LASERS will be entitled to a larger pension benefit if SB 30 is enacted. The bill will provide larger pensions to 213 adult probation and parole officers who are members of the Secondary Component.

The financial effect on LASERS of the benefit provisions of SB 30 is shown below:

Cost Component	Increase/(Decrease)
Present Value of Future Benefit	$ 4,523,091
Present Value of Future Normal Costs	179,063
Unfunded Accrued Liability	4,344,028
Annual Amortization Payment	622,950
Normal Cost	37,745
Annual Employer Contribution	660,695

- Note: The increase in the UAL must be fully amortized within 10 years, or by June 30, 2025.

Revenues from fees charged to open new case files since July 1, 2009, are shown below:

Fiscal Year	Annual Fees	Quarterly Fees
2009-10	$ 1,746,125	$ 436,281
2010-11	769,165	192,291
2011-12	1,117,637	279,409
2012-13	1,036,430	259,108
2013-14*	940,453	235,113
Average 2010-2014	$ 965,921	$ 241,480

* Estimated annual fees based on 3/4 of a year.

Fees for 2009-10 were not included in the average quarterly fee calculation because fees for that year included fees collected on all open case files on July 1, 2009 as well as fees on new files opened during the year.

The outstanding balance in the Adult Probation and Parole Officers Retirement Fund (the Fund) on April 21, 2014, was $171,917. We assume the Fund will be able to make the initial $1,000,000 payment to LASERS on March 30, 2015, and quarterly deposits of $225,000 thereafter.

Projected cash flows for LASERS relative to the Adult Probation and Parole Officers' Fund and additional employer contribution requirements due to SB 30 are shown below:

Table 1

FYE June 30	Receipts from AP&PO Fund = (b) + (c)	BOY Balance (a)	Normal Cost Payment (b)	UAL Payment (c)	Interest (d)	EOY Balance = (a) + (b) - (c) + (d)
2015	$ 1,000,000	$ 4,344,029	$ 37,745	$ 962,255	$ 328,829	$ 3,748,348
2016	945,115	3,748,348	37,745	907,370	252,572	3,131,295
2017	904,816	3,131,295	37,745	867,071	206,432	2,508,401
2018	904,816	2,508,401	37,745	867,071	156,599	1,835,674
2019	904,816	1,835,674	37,745	867,071	102,781	1,109,129
2020	904,816	1,109,129	34,274	870,542	44,590	317,451
2021	319,224	317,451	0	319,224	1,773	0

Other Post-Employment Benefits

There are no actuarial costs associated with post-employment benefits other than pensions relative to the remedial portions of SB 30.

Adult probation and parole officers affected by SB 30 may be able to afford to retire earlier than they would have otherwise. If so, liabilities associated with post-employment benefits other than pensions will increase.

Analysis of Fiscal Costs

The remedial portions of SB 30 will have no effect on fiscal costs during the five year measurement period.

The remaining portions of SB 30 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures by LASERS (Agy Self-Generated) will increase to the extent that individuals affected by SB 30 retire and collect larger benefits than they would have otherwise.

2. Expenditures from the Adult Probation and Parole Officers Retirement Fund (Stat Deds/Other) will increase in accordance with the "Receipt" column of Table 1.

Revenues:

- LASERS revenues (Agy Self Generated) will increase by the amounts received from the Adult Probation and Parole Officer Retirement Fund.

LASERS has not provided any information regarding additional costs it may incur to implement and administer the provisions of SB 30.

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.

In preparing this estimate, we have also relied upon membership data provided by probation and parole officers.

Actuarial Caveat

There is nothing in SB 30 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 necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate	House
[x] 13.5.1: Annual Fiscal Cost ≥ $100,000	[ ] 6.8(F)(1): Annual Fiscal Cost ≥ $100,000
[ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000	[ ] 6.8(F)(2): Annual Revenue Reduction ≥ $500,000
	[ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000