New law generally requires increased payments to outstanding debts of each state retirement system (La. State Employees' Retirement System (LASERS); Teachers' Retirement System of La. (TRSL); La. School Employees' Retirement System (LSERS); and State Police Retirement System (STPOL)) and restricts the creation of additional system liabilities by limiting the amount and frequency of benefit increases.

Debt Payments from Excess Returns

Existing 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.

New 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. The amount applied to system debt pursuant to new law will be in addition to, and independent of, any amortization payment included in the employer contribution rate.

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).

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

New 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, new 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, new 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.

New 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. New 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, new law 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, new law 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

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

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

Prior law for all four state systems provided that gains and losses would be amortized as level dollar payments over a period of 30 years. New 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.

New 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

Existing 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.

New 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 new law be amortized as a credit towards the employer contribution rate.

Experience Accounts

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

New 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.

Prior law authorized credits to a system's experience account in an amount up to that necessary to grant two permanent benefit increases. New law ties the amount that can be credited to the system's experience account to the system's funded ratio. If a system is less than 80% funded, new law authorizes credits up to the amount necessary to grant one permanent benefit increase calculated pursuant to new law. For a system that is 80% funded or better, new law authorizes credits up to the amount necessary to grant two permanent benefit increases calculated pursuant to new law.

Prior law provided that, to the extent permitted by the two benefit increase cap, the experience account was credited with interest attributable to the amount in the account during the prior year. New 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.

Existing 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.

Prior law provided that a benefit increase funded by the account was 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.

New 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.

Existing 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 is limited to the lesser of 2% or the CPI-U.

Prior law for LSERS provided that if the system did not attain its actuarial rate of return, a benefit increase was limited to the lesser of 2% or the CPI-U. New law changes the hurdle from the system's actuarial rate of return to an actuarial rate of return of 7.25%.

Prior law for STPOL provided that if the system did not attain its actuarial rate of return, a benefit increase was limited to the lesser of 2% or the CPI-U. New law changes the hurdle from the system's actuarial rate of return to an actuarial rate of return of 7%.

Existing 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.

New 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 new 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%.

Existing law for each system establishes a portion of each retiree's benefit upon which a benefit increase is calculated. Under prior law the portions were 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.

New 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.

Existing law for STPOL authorizes a supplemental benefit increase of 2% for retirees and beneficiaries who are age 65 and older. Prior law provided that the amount of such supplemental benefit was based on the first $85,000 of a retiree's annual benefit, indexed to the CPI-U for the prior calendar year. New law 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

Existing 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.

Existing law providing for each system's experience account provides that the board of trustees grant the benefit increase authorized by existing law. Further provides that the legislature approve the increase.

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.

Prior law relative to each system's experience account provided that a benefit increase be enacted by adoption of a resolution by majority vote of the elected members of each house of the legislature. New law repeals this provision.

Reports and Studies

New 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.

New 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 when SB Nos. 16, 18, 19, and 21 of the 2014 RS become effective (June 30, 2014).

(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. 11:102.1(B)(6) and (C)(6), 102.2(B)(5) and (C)(6), 102.3, 542(G), 883.1(H), 1145.1(F), and 1332(G))