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## DIGEST

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HB 34 Original

2020 Regular Session

Ivey

**Abstract:** Establishes an optional hybrid retirement plan for employees of charter schools whose first employment making them eligible for membership in a state system occurred on or after July 1, 2021.

Present law establishes four state retirement systems – the La. State Employees' Retirement System, the Teachers' Retirement System of La. (TRSL), the La. School Employees' Retirement System, and the State Police Retirement System – and provides a defined benefit retirement plan for members of each system. Proposed law establishes an optional hybrid retirement plan (Hybrid Plan) – consisting of a combination of a defined benefit pension and a defined contribution (DC) account – for persons employed by a charter school whose first employment making them eligible for membership in a state system occurs on or after July 1, 2021 (hereafter referred to as "new members").

### Cost Sharing

Present law establishes a fixed rate at which members must contribute to each state and statewide retirement system. Proposed law retains present law for those who are not new members. Further establishes a floating rate for new members based on an equal division of the cost of the plan for new members.

Present law establishes the formula by which employer contribution rates are calculated each year. Generally requires the employer to fund 100% of unfunded accrued liability (UAL) payments. Proposed law requires new members who opt into the Hybrid Plan to split equally the cost of their benefit accruals (the "Normal Cost") and the cost of any UAL attributable to their plan.

### COLAs

Present law provides a mechanism for paying cost-of-living adjustments (COLAs) to retirees of state retirement systems using investment gains over and above certain pre-determined levels. Proposed law retains present law for those who are not new members. For new members who opt into the Hybrid Plan, proposed law establishes a pre-funded COLA mechanism, the cost of which is split between new members and employers. Upon retirement (or death), in every odd-numbered year, a qualifying new member or beneficiary of such will receive a COLA equal to the lesser of:

- (1) 2%.

- (2) The CPI-U for the South as calculated by the U.S. Dept. of Labor, Bureau of Labor Statistics, for the 12-month period ending on the May 30th immediately preceding the payment of the benefit increase.

Further provides that such COLA shall only be paid on the first \$50,000 of a retiree or beneficiary's benefit amount.

Proposed law establishes the following qualifications for a COLA:

- (1) Any retiree who has received a benefit for at least one year and who has attained at least his normal retirement age.
- (2) Any nonretiree beneficiary who has received a benefit for at least one year (aggregated with any time the deceased member may have received a benefit) if the deceased member would have attained his normal retirement age.
- (3) Any disability retiree or any beneficiary who receives benefits based on the death of a disability retiree if benefits have been received for at least one year.

### **Regular Retirement Benefits**

#### *Defined Benefit Plan*

Present law provides a retirement benefit that combines average compensation with a percentage multiplier for each year of service. This calculation can be rendered as:

#### **Accrual Rate x Years of Service x Average Compensation**

Present law provides an accrual rate of average compensation for each year of a member's service. Proposed law retains present law for those who are not new members. Further establishes a 1% accrual rate for regular retirement benefit calculations for new members.

Present law establishes a five-year vesting period for the right to a benefit from the defined benefit plan. Proposed law retains present law for all members, regardless of the date of hire.

#### *DC Plan*

Proposed law establishes a DC account for each new member who opts into the Hybrid Plan. Requires the Dept. of the Treasury (department) to select up to three third-party providers who will administer the DC accounts for new members. Establishes criteria for the department to use in evaluating potential third-party providers. Requires the department to select from the funds offered by each provider a minimum of 10 and a maximum of 25 fund options in a range of risk and return profiles that will be offered to new members in the DC plan. Requires at least one investment option to be a fund with a guaranteed rate of return.

Proposed law provides that new member DC accounts for TRSL shall be credited with 10% of pay each month.

Proposed law establishes a five-year vesting period for the right to employer contributions and interest credited to the new member's account. The new member's right to access interest on employee and employer contributions made to the DC account is triggered by the member's retirement (regular or disability) or death, whichever occurs first.

Proposed law provides that if a member terminates employment prior to attaining five years of participation in the DC plan, the employee is entitled to a return of all employee contributions, without interest. All interest and employer contributions will be forfeited to the system.

Proposed law further provides that if a member terminates employment after attaining five years of participation in the DC plan, but prior to retirement, he must leave his account balance with the third-party provider until the first age at which he may begin to draw an unreduced retirement benefit and may then exercise all options in proposed law for members who retire from the system.

Proposed law provides that upon retirement, a member must annuitize at least 75% of his DC account balance with the third-party provider. The member may choose the percentage of his account, up to 25%, that will not be annuitized. Any portion of the account that is not annuitized may be withdrawn in one or more lump-sum payments or rolled to another qualified retirement account, such as an IRA.

Proposed law prohibits a new member who has not terminated employment or retired from withdrawing funds from his DC account or borrowing against such funds.

### **Retirement Eligibility**

Present law for TRSL provides that a member hired on or after July 1, 2015, is eligible for regular retirement if he has:

- (1) Five years of service at age 62 or thereafter.
- (2) 20 years of service at any age, actuarially reduced.

Proposed law provides that a Hybrid Plan member is eligible for regular retirement if he has:

- (1) Five years of service at age 65 or thereafter.
- (2) 20 years of service at age 55 or thereafter, actuarially reduced.

### **Disability & Death Benefits**

Proposed law provides that disability and death benefits for new members shall be calculated as though the member had been hired prior to July 1, 2021 (Tier 1); however, restricts the accrual rate

used in any such calculation to the Hybrid Plan rate applicable to the member.

Proposed law provides that if the new member did not meet the eligibility requirements for the applicable Tier 1 survivors benefits, his designated beneficiary or his estate shall receive the DC account balance the member would otherwise have been entitled to as a lump-sum or a transfer to another qualified retirement plan.

Proposed law provides that if a member does meet the Tier 1 survivor benefit qualifications, his DC account shall be divided as follows:

- (1) If there is a surviving spouse and at least one minor child or child with a disability, the surviving spouse shall receive an annuity based on one half of the account balance. The other half of the account balance shall be divided pro rata between the minor children and children with disabilities and annuitized.
- (2) If there is no surviving spouse but there is at least one minor child or child with a disability, the account shall be divided pro rata between the minor children and children with disabilities and annuitized.

Proposed law provides that a member receiving disability benefits from the defined benefit plan may access and annuitize his DC account, including employer contributions and all interest.

Proposed law provides that if a disability retiree who is under his normal retirement age is restored to active service, his disability benefit payments and access to the balance of his DC account shall cease. He shall resume contributions to the retirement system and if he continues in service for at least three years after restoration, the period of time spent on disability shall be counted toward normal retirement eligibility, but will not count towards calculation of benefits. Requires the remaining value of any annuity based on the DC account balance to be converted back into a lump sum and deposited into the member's account. Further provides that contributions to the member's DC account shall resume and be added to the balance in the account at the time he is restored to active service.

### **Applicability of Tier 1 Provisions**

Proposed law provides that the provisions of Tier 1 that the member would have been enrolled in but for his date of hire shall apply in any case where the provisions of the Hybrid Plan are silent.

(Amends R.S. 11:102(B)(1) and (3)(a), (D)(2)(a) and (b), (4), (5), and (6)(a), (b), and (c), 247(A)(1), (D), and (E), 883.1(C), and 927(A) and (B)(2)(a) and (b) and (3)(a)(i); Adds R.S. 11:62(14), 102(D)(3)(d), 102.7, and 1399.1-1399.11)