2011 REGULAR SESSION
ACTUARIAL NOTE SB 9

Senate Bill 9 SLS 11RS-44 **Original** **Author: Senator D. A. "Butch" Gautreaux** **Date: April 21, 2011** **LLA Note HB 9.01** **Organizations Affected:** **Louisiana State Employees' Retirement System** **OR INCREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT CREDIT. Allows members of the Louisiana Employees' Retirement System (LASERS) to purchase service credit for purposes of retirement eligibility. (7/1/11)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Cost Increase
Total Five Year Fiscal Cost	
Expenditures	Cost Increase
Revenues	Revenue Increase

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with administration or other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Cost Increase
Other Post Retirement Benefits	Cost Increase
Total	Cost Increase

Changes in the unfunded accrued liability of the retirement system resulting from SB 9 cannot be separately identified. Any changes in liability in future years will be recognized in the aggregate with other actuarial gains or losses and will be amortized over a period of 30 years. Subject to this caveat, 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.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

<u>Bill Information:</u>

Current Law

Current law provides that a member of LASERS who has at least five years of service may purchase up to five additional years of service credit that may be used for benefit calculation purposes, but not for benefit eligibility. To obtain the credit the member is required to pay to LASERS the greater of:

1. The cost of such service credits calculated in accordance with R.S. 11:158, or

2. The sum of employer and employee contribution rates currently applicable at the time of the purchase multiplied by the member's annual salary and the years of service purchased. This amount shall be accumulated with interest to the purchase date.

Proposed Law

Under proposed law, a member of LASERS with at least five years of service may purchase additional service credits as follows:

1. He may purchase 5 years of benefit service (current law).

2. He may purchase 5 years of benefit and eligibility service (proposed law).

3. He may purchase 5 years of eligibility service if he had previously purchased 5 years of benefit service (proposed law).

Note: He may not purchase under current law or under proposed law 5 years of eligibility service without having or obtaining the corresponding benefit service.

Such service must be purchased in one year increments. To obtain this credit, the member will be required to pay to LASERS the greater of:

1. The cost of such service credits calculated in accordance with R.S. 11:158, or

2. The sum of employer and employee contribution rates currently applicable at the time of the purchase multiplied by the member's annual salary and the years of service purchased. This amount shall be accumulated with interest to the purchase date.

Under proposed law, the premium sharing formula applicable to a member who purchases eligibility service credits and who also participates in the programs offered by the Office of Group Benefits will not be affected by such purchase of eligibility credits. However, depending on the interpretation of the proposed law, OGB may be responsible for the employer share of premiums for retirement years that a member would not have been eligible had he not been permitted to purchase eligibility service credits under SB 9.

Implications of the Proposed Changes

SB 9 will give members of LASERS added flexibility in timing their retirement. However, to obtain the additional flexibility, the member must pay the full actuarial cost associated with benefit rights gained.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

The actuarial cost of SB 9 cannot be measured. However, it appears that there may be a cost associated with anti-selection. This cost may be offset to some extent by the potential that some members may pay more for eligibility service credits than the credits are worth. These issues are discussed below.

Anti-Selection

Anti-selection costs will be incurred under SB 9. For example, a member who is terminally ill, may elect to make a purchase of eligibility service in order to retire and provide a life income to a spouse once he dies. The actuarial cost charged by the retirement system will not reflect the additional costs that will be incurred because the member is in poor health. Anti-selection costs cannot be eliminated unless each purchase is individually underwritten.

Contribution Charges

It is possible under SB 9 that a member who wishes to purchase five years of benefit service and five years of eligibility service will have to pay two times the amount of employee and employer contributions for the five years plus interest. If this should occur, the employee is paying more for the service credits than the actuarial cost. To be cost neutral, the purchase price should be determined in the following manner:

1. If he elects to purchase 5 years of eligibility service, the member's payment should be the greater of the actuarial cost under R.S. 11:158 or the sum of employer and employee contributions plus interest.

2. If he elects to purchase 5 years of benefit service, the member's payment should be the greater of the actuarial cost under R.S. 11:158 or the sum of employer and employee contributions plus interest.

3. If the member elects to purchase 5 years of benefit service and 5 years of eligibility service, the member's payment should be the greater of the actuarial cost of such credits as calculated under R.S. 11:158 or the sum of employee and employer contributions plus interest.

4. If a member who had previously elected to purchase 5 years of benefit service now elects to purchase eligibility service, the member's payment should be the greater of (1) the cost of such service as measured under R.S. 11:158, (2) employer and employee contributions as determined at the date of the earlier purchase plus interest to the date of the current purchase, or (3) employer and employee contributions determined at the date of the current purchase plus interest if any.

Employee payments determined in this manner would be actuarially neutral (except for anti-selection costs). Employee payments as provided in SB 9 therefore have the potential to generate income to the retirement system.

Other Post Retirement Benefits

Premium Sharing

Under current law, retired employees pay a portion of the total premium for health insurance coverage provided by the Office of Group Benefits. The minimum share percentage occurs for members who have 20 or more years of participation in OBG's health insurance program. The member's share increases as the number of years by which he falls short of 20 years of participation increases. However, SB 9 only affects service credits for retirement system purposes and therefore will have no effect on the participation formula used by OGB.

Additional Years of Premiums

With the enactment of SB 9, a member who purchased eligibility service will be able to retire earlier than he would have been able without such a purchase. It is not clear from the language of SB 9 who will be responsible for the employer share of post-retirement premium charges for the years of retirement that the member would not have enjoyed had he not elected to purchase eligibility service credits. Therefore, based on the language of SB 9 as written, the actuarial value of post-retirement benefit costs could potentially increase.

Analysis of Fiscal Costs

Enactment of SB 9 will have the following effects on fiscal expenditures and revenues.

Expenditures

1. Expenditures from the General Fund will increase due to members retiring earlier than they would have otherwise. Such retirements will increase contribution requirements because of increased anti-selection costs and because the cost of post-retirement benefits other than pensions will increase.

2. Expenditures by LASERS will increase because some members will elect to purchase service credits and retire immediately. Without SB 9, they would not have been able to retire and no benefit payment would have been deferred.

3. Expenditures by LASERS (Agy/Self Generated) will increase due to the cost of anti-selection.

Revenues

- LASERS revenues will increase due to amounts paid by purchasers of the service credits.

- LASERS revenues will increase because employer contribution requirements will increase to accommodate actuarial losses that will be sustained due to anti-selection.

The net effect will be an increase in costs. Such cost increases cannot be separately identified, but rather will be recognized in the aggregate with other actuarial gains and losses subject to 30 year amortization. The cost can neither be precisely determined nor allocated to any particular year of the fiscal measurement period. The only conclusion that can be drawn is that there will be a net increase in fiscal costs.

LASERS anticipates no additional administrative costs associated with SB 9.

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 to render the actuarial opinion contained herein.

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Dual Referral:

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

Although the fiscal cost for any one of the three fiscal years following the 2011 legislative session cannot be measured and the amount is not specified, it is very likely that such cost will exceed $100,000 in one or more years during the measurement period. It is probably not likely to exceed $500,000 in any year because at least 20 members would have to purchase service and retire immediately in order for the threshold to be reached. The potential increase in expenditures from state general funds is not likely to exceed $100,000 in any year during the measurement period.