2011 REGULAR SESSION
ACTUARIAL NOTE SB 5

Senate Bill 5 SLS 11RS-109
Original

Author: Senator Conrad Appel
Date: April 18, 2011

LLA Note SB 5.01

Organizations Affected:
Louisiana State Employees' Retirement System

OR NO IMPACT APV

The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.

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Bill Header: RETIREMENT BENEFITS: Relative to the Louisiana State Employees' Retirement System (LASERS) allows for a change in beneficiary for purpose of joint and survivor annuities. (2/3 – CA10s29(F)) (7/1/11)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	$0
Total Five Year Fiscal Cost	
Expenditures	$0
Revenues	$0

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	$0
Other Post Retirement Benefits	$0
Total	$0

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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Bill Information:

Current Law

Current Law provides that a retiree of LASERS who returns to work and selects re-employment Option 3 will earn a supplemental benefit based on his service during his re-employment. A member of LASERS who continues to work after DROP will also earn a supplemental benefit. In either case, upon re-retirement, the supplemental benefit is paid under the same benefit option and for the same beneficiary as elected for the original retirement allowance.

Proposed Law

Proposed law allows a member of LASERS to select a new option and a new beneficiary relative to his supplemental benefit. A new option and beneficiary can be selected under the following conditions:

1. The member's original benefit was contingent upon the life of his former spouse.
2. The member's marriage to his or her former spouse has terminated due to death or divorce.
3. If the new option is contingent upon the life of another person, the new beneficiary must be his current spouse.
4. The new option can apply only to the portion of the supplemental benefit earned after the termination of his marriage to his former spouse.
5. Any portion of the supplemental benefit earned prior to the termination of his marriage to his former spouse will be based on the option and beneficiary selected at the time of his original retirement.

Proposed law requires the retirement allowance payable under the supplemental benefit be adjusted actuarially to account for any increase in actuarial liability incurred by the retirement system as a result of the selection of a new option and beneficiary. It is assumed that this provision has the following meaning:

1. The present value of the supplemental benefit will be calculated based on the option and beneficiary originally selected.
2. This present value can then be used to purchase a benefit of equivalent value under the new option with the new beneficiary.

The proposed law also holds LASERS harmless from any liability, loss, or damages the retirement system may sustain as a result of legal actions that may occur due to the system allowing such a new option and beneficiary designation.

Implications of the Proposed Changes

The proposed law permits a retiree to choose a benefit option for his or her supplemental benefit that is not contingent on the life of a former spouse named as a beneficiary on the original retirement date. Note: under the current law, a member may obtain a Qualified Domestic Relations Order in compliance with community property laws to obtain the same result. Nevertheless, SB 5 codifies this right within the framework of retirement law as well.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The present value of a member's supplemental benefit under the new benefit option with a new beneficiary may be larger or smaller than what it would have been if the member had been required to select the original option and beneficiary. There is a small potential for anti-selection. An example of anti-selection is given below:

- A member in poor health is retiring with a supplemental benefit. He satisfies all the conditions under SB 5 that would allow him to select a new option and name a new beneficiary. He selects the 100% J&S option to insure that his reduced supplemental benefit will be paid to his current spouse for as long as she lives following his death.

  The actuary for the system has calculated the optional supplemental benefit amount assuming both the member and beneficiary are healthy. If the actuary had known that the member was in poor health, the optional supplemental benefit would have been smaller. As a result, the member in poor health gains by his superior knowledge and anti-selection has occurred.

However, because of the restrictions imposed by SB 5 on the right to select a new option and beneficiary, the potential for anti-selection is very limited and anti-selection costs are negligible.

Other Post Retirement Benefits

There is no actuarial cost associated with SB 5 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

LASERS anticipates no additional administrative costs associated with SB 5.

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.

Dual Referral:

Senate

- [ ] 13.5.1 ≥ $100,000 Annual Fiscal Cost
- [ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change

House

- [ ] 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost
- [ ] 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost
- [ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change