2011 REGULAR SESSION
ACTUARIAL NOTE HB 149

House Bill 149 HLS 11RS-415 Engrossed **Author: Representative J. Rogers Pope** **Date: May 9, 2011** **LLA Note HB 149.02** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **EG DECREASE FC SG RV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.**  **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/TEACHERS: Relative to the Teachers' Retirement System of Louisiana (TRSL), excludes from membership employees of the Louisiana High School Athletic Association employed on or after July 1, 2011.

Cost Summary:

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

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

HB 149 does not provide for a benefit increase. Therefore, 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	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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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Bill Information:

Current Law

Under current law, the director, secretary, staff members or any other individual employed by the Louisiana High School Athletic Association (LHSAA) is defined as a "Teacher" and must be a member of TRSL. However, any such individual employed on or after July, 1, 2000 who does not have a valid Louisiana teacher's certificate may elect not to participate in TRSL. Any such individual regardless of when employed that has a valid Louisiana teacher's certificate must be a member of TRSL.

Proposed Law

HB 149 excludes any director, secretary, staff member or any other individual first employed by LHSAA after June 30, 2011 from the definition of Teacher. Therefore, any employee of LHSAA employed after June 30, 2011 may not become a member of TRSL, regardless of their teacher certification status.

A comparison of TRSL membership rules of employees of LHSAA under current law with rules that will exist under HB 149 is provided below:

Employment Criteria	**Current Law**	**HB 149**
Any LHSAA employee hired before June 30, 2000	TRSL membership is required	TRSL membership is required
Any LHSAA employee with a valid Louisiana teacher certificate hired after June 30, 2000 and before July 1, 2011	TRSL membership is required	TRSL membership is required
Any LHSAA employee not having a valid Louisiana teacher certificate hired after June 30, 2000 and before July 1, 2011	TRSL membership is optional	TRSL membership is optional
Any LHSAA employee with a valid Louisiana teacher certificate on or after July 1, 2011	TRSL membership is required	TRSL membership is not permitted
Any LHSAA employee not having a valid Louisiana teacher certificate hired on or after July 1, 2011	TRSL membership is optional	TRSL membership is not permitted

Implications of the Proposed Changes

No employee of LHSAA hired on or after July 1, 2011 will be allowed to participate in TRSL regardless of whether or not he or she holds a valid Louisiana teacher's certificate.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

There is no actuarial cost associated with HB 149. However, some costs will be shifted from LHSAA to other employers participating in TRSL. Responsibility for the payment of contributions to amortize the retirement system's UAL will be shifted from LHSAA to other employer participating in TRSL under the following circumstances.

1. LHSAA hires an employee on or after July 1, 2011 who has a valid Louisiana teacher's certificate. Under current law, such an employee would be required to participate in TRSL. Under HB 149, such an employee would not be allowed to participate in TRSL. The responsibility for UAL contribution payments that would otherwise be paid by LHSAA for this employee will be shifted to all other employers participating in TRSL.

2. LHSAA hires an employee on or after July 1, 2011 who does not have a valid Louisiana teacher's certificate. Under current law, such an employee may elect or not elect to become a member of TRSL. Under HB 149, such an employee would not be allowed to participate in TRSL. The responsibility for UAL contribution payments that would otherwise be paid by LHSAA for this employee, should he have elected to become a TRSL member, will be shifted to all other employers participating in TRSL.

The employer contribution rate for TRSL will increase if HB 149 is enacted. The basis for this conclusion is summarized below:

1. The total normal cost for new employees of LHSAA who otherwise would have become members of TRSL will no longer be made. However, no benefits will be earned. Therefore, the effect of excluding new employees of LSHAA relative to normal costs paid and benefits earned is actuarially neutral.

2. However, if new employees are not allowed to become members of TRSL, the employer unfunded accrued liability (UAL) contribution rate will not be applied against their salaries and fewer dollars will be collected to amortize the system's UAL. Therefore, the employer UAL contribution rate applicable to all other employers must be increased in order to raise the specified UAL payment.

However, the increase will be negligible because of the number of LHSAA employees potentially affected by this legislation is so small. Currently, LHSAA has 18 filled positions and only 10 of those are members of TRSL. Even if all of these employees are replaced with new employees hired after July 1, 2011, the effect on the overall employer contribution rate for TRSL will be extremely small.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 149 relative to other post-retirement benefit obligations.

Analysis of Fiscal Costs

LHSAA is supported by monies from donations and other self-generated funds. Some public funds are used to support the LHSAA, like membership dues from public high schools. HB 149 will have the following effect on fiscal costs for every LHSAA employee hired after July 1, 2011 who is prohibited from becoming a member of TRSL.

Expenditures:

1. Expenditures by LHSAA (Local Funds) will decrease to the extent that it no longer has to contribute toward the cost of the retirement system's UAL based on the salaries of such employees.

2. Expenditures by local school districts (Local Funds) and by employers of higher education (General Fund) for UAL contributions will increase by the same amount that LHSAA's contribution for the UAL decreases.

3. Expenditures by LHSAA (Local Funds) for employer normal costs relative to such employees will decrease because they will not be members of TRSL.

4. Expenditures by TRSL for benefits payments (Agy Self Generated expenditures) relative to such employees of LHSAA will not change because it is unlikely that any new employee will be entitle to a benefit distribution during the 5 year measurement period.

Revenues:

1. TRSL revenues (Agy Self Generated) will decrease to the extent that it will not receive normal cost contributions relative to such LHSAA employees.

2. TRSL revenues (Agy Self Generated) will decrease to the extent that it will not receive employee contributions relative to such LHSAA employees.

Illustration:

The effects on fiscal costs relative to one employee of LHSAA hired after July 1, 2011 who is prohibited from becoming a member of TRSL under HB 149 are summarized below:

Increase/(Decrease) in Expenditures

	UAL Costs	**Employer Normal Costs**	**Employee Contributions**	**Total**
General Funds – Higher Education Employers	$0 to $9,000	$ 0	N/A	$ 9,000
Local Funds – School Districts	$0 to $9,000	$ 0	N/A	
Local Funds – LHSAA	$ (9,000)	$ (3,000)	N/A	$ (12,000)
Total	$ 0	$ (3,000)	N/A	$ (3,000)

Increase/(Decrease) in Revenues

	UAL Costs	**Employer Normal Costs**	**Employee Contributions**	**Total**
Agy Self Generated	$ 0	$ (3,000)	$ (4,000)	$ (7,000)

This illustration is based on the following assumptions:

1. LHSAA hires a new employee after July 1, 2011 and pays him $50,000 a year.
2. The new employee would have become a member of TRSL except for the provisions of HB 149.
3. The UAL employer cost rate is 18% of pay.
4. The employer normal cost rate is 6% of pay.
5. The employee contribution rate is 8% of pay.

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	**House**
☐ 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

Fiscal costs associated with HB 149 are not expected to exceed $100,000 in any one of the three years immediately following the 2011 legislative session.