


**2011 REGULAR SESSION
ACTUARIAL NOTE HB 478**

<p>House Bill 478 HLS 11RS-380 Original</p> <p>Author: Representative Jack Montoucet</p> <p>Date: May 18, 2011</p> <p>LLA Note HB 478.01</p> <p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>OR +\$7,800,000 APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/STATE EMPS: Provides for additional accruals for adult probation and parole officers in the primary component.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$7,800,000
Total Five Year Fiscal Cost	
Expenditures	\$6,127,000
Revenues	\$6,127,000

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 administrative or other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	\$7,800,000
Other Post Retirement Benefits	Increase
Total	\$7,800,000

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	\$ 0	\$ 418,000	\$ 418,000	\$ 418,000	\$ 418,000	\$ 1,672,000
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	0
Stat Deds/Other	2,891,000	391,000	391,000	391,000	391,000	4,455,000
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 2,891,000	\$ 809,000	\$ 809,000	\$ 809,000	\$ 809,000	\$ 6,127,000

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	2,891,000	809,000	809,000	809,000	809,000	6,127,000
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	\$ 2,891,000	\$ 809,000	\$ 809,000	\$ 809,000	\$ 809,000	\$ 6,127,000

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Bill Information:

Current Law

Current law provides for a "primary component" benefit structure and a "secondary component" benefit structure for certain members of LASERS who are employed by the Department of Public Safety and Corrections (DPS&C). Employees hired before January 1, 2002 became members of the Primary Component and those hired on or after that date became members of the Secondary Component. Pension benefit provisions applicable to Primary and Secondary members are summarized below:

Benefit Provisions	Primary Members	Secondary Members
Eligibility for Regular Retirement	<p><i>If Employed before 8/15/1986:</i></p> <ul style="list-style-type: none"> • Any age with 20 years of service • Age 60 with 5 years of service <p><i>If Employed on or after 8/15/1986:</i></p> <ul style="list-style-type: none"> • Age 50 with 20 years of service • Age 60 with 5 years of service 	<ul style="list-style-type: none"> • Any age with 25 years of service • Age 60 with 5 years of service
Benefit Formula	Benefit = 2.5% x Service x FAC	Benefit = 3 1/3% x Service x FAC
FAC = Final Average Compensation		

A member of the Primary Component is allowed to become a member of the Secondary Component by submitting an application to the LASERS board of trustees in the same manner as members who transfer from another retirement system. A Primary member who elects to transfer to the Secondary Component will be eligible to retire in accordance with requirements applicable to Secondary members.

The benefit formula applicable to such a transferred member depends on whether he elected to pay the actuarial cost to upgrade the benefit accrual rate applicable to service credited to him prior to his transfer date.

Transfer Election	Benefit Formula
Elected to Pay the Actuarial Cost to Upgrade the Benefit Accrual Rate for Pre Transfer Service	Benefit = 3 1/3% x Total Service x FAC
Elected <i>Not</i> to Pay the Actuarial Cost to Upgrade the Benefit Accrual Rate for Pre Transfer Service	Benefit = (2.5% x Pre Transfer Service + 3 1/3% x Post Transfer Service) x FAC

Current law provides for the "Adult Probation and Parole Officer Retirement Fund", a special fund in the state treasury. Monies in the fund will remain in the fund until the legislature provides for enhanced benefits for adult probation and parole officers who have service credit in the Primary Component.

Proposed Law

HB 478 pertains only to adult probation and parole officers who are currently members of the Primary Component or once were members of the Primary Component but elected to transfer to the Secondary Component. The following rules, based on our interpretation of the language of HB 478, page 4, lines 18-20 and used in the preparation of actuarial costs, will apply to these officers:

1. Officers Who Are Primary Members:
 - a. Primary retirement eligibility rules will apply.
 - b. Benefit formula will be changed to:

$$\text{Benefit} = (3.0\% \times \text{Service before } 7/1/2011 + 3 \frac{1}{3}\% \times \text{Service on or after } 7/1/2011) \times \text{FAC}$$
2. Officers Who Are Secondary Members on June 30, 2011 Who Transferred from Primary without an Upgrade In the Benefit Accrual Rate
 - a. Secondary retirement eligibility rules will apply.
 - b. Benefit formula will be changed to:

$$\text{Benefit} = (3.0\% \times \text{Service before Transfer Date} + 3 \frac{1}{3}\% \times \text{Service on or after Transfer Date}) \times \text{FAC}$$

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An Officer who was a Primary member, who transferred to the Secondary Component before July 1, 2011, and who elected to upgrade his benefit accrual rate for service earned prior to his transfer, may elect to be reimbursed without interest for the cost of the upgrade and have the following formula apply to service earned before transferring:

$$\text{Benefit} = (3.0\% \times \text{Service before Transfer Date} + 3 \frac{1}{3}\% \times \text{Service on or after Transfer Date}) \times \text{Final Average Compensation.}$$

HB 478 will cause the LASERS unfunded accrued liability to increase because:

1. Officers who are currently members of the Primary Component and Officers who in the past were members of the Primary Component will be granted improved benefit accrual rates for service credits earned in the past.
2. Some Officers currently in the Secondary Component who elected to upgrade their service credits may elect to receive a refund.

HB 478 provides rules to ensure a source of funding for the benefit improvements made in the bill. These rules are summarized below:

1. Increases in normal cost will be paid for by charging a larger contribution rate to employers of adult probation and parole officers. The employer contribution rate for the Primary Component sub-plan of LASERS will increase and the employer contribution rate for the Secondary Component sub-plan will increase.
2. \$2,500,000 will be transferred on or before September 30, 2011 from the Adult Probation and Parole Officer Retirement Fund to LASERS to offset the UAL so created.
3. Any UAL over and above \$2,500,000 will be amortized over a period of 10 years. The June 30, 2011 valuation for LASERS will recognize the payment of the \$2,500,000 amount from the fund to LASERS and any additional payments needed to amortize any remaining UAL.
4. Amounts in the Fund after the transfer of \$2,500,000 to LASERS will be used to pay for these amortization amounts and for any refunds payable to Officers electing reimbursement for a prior upgrade.
5. Any unpaid portion of an amortization payment provided for in proposed law for a particular fiscal year shall be paid by Department of Public Safety and Corrections.

Implications of the Proposed Changes

HB 478 improves the benefit formula applicable to members of the Primary Component, and certain members of the Secondary Component, of LASERS. The bill also provides an source of funding for these improvements.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Sixty-three adult pension and parole officers who are members of the Primary Component sub-plan of LASERS will be entitled to a larger pension benefit if HB 478 is enacted. The bill will provide larger pensions to 216 adult probation and parole officers who are members of the Secondary Component.

Actuarial costs associated with HB 478 are summarized below.

1. A lump sum payment of \$2,500,000 will be required from the Adult Probation and Parole Officer Retirement Fund to LASERS.
2. The effect on future employer contribution requirements are summarized below:

Cost Component	Increase/(Decrease)
Present Value of Benefits	\$ 7,800,000
Present Value of Future Normal Costs	2,600,000
Accrued Liability	5,200,000
Funding from Adult Probation and Parole Officer Retirement Fund	2,500,000
Net Accrued Liability	2,700,000

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Cost Component	Increase/(Decrease)
Normal Cost	\$ 418,000
Annual Amortization of Net Accrued Liability	391,000
Total Increase in Annual Employer Contribution	\$ 809,000

In preparing this estimate of cost, we have assumed that no member of the Secondary Component who is an adult probation or parole officer will elect a refund of amounts paid earlier for an upgrade in benefit accruals.

Other Post Retirement Benefits

Actuarial costs associated for other post-employment benefits could increase as a result of HB 478. Adult probation and parole officers affected by HB 478 may be able to afford to retire earlier than they would have otherwise. If so, liabilities associated with post-retirement benefits other than pensions will increase.

Analysis of Fiscal Costs

HB 478 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Beginning in FY 2013, expenditures from General Funds will increase to the extent that employer retirement contributions for normal costs associated with employees of the Department of Public Safety and Corrections are paid out of General Funds (\$418,000).
2. Expenditures by LASERS (Agy Self Generated) will increase to the extent that individuals affected by HB 478 retire and collect larger benefits than they would have otherwise.
3. Expenditures from State Dedicated Funds will increase \$2,500,000 in 2011-12 for the amount required to be transferred from the Adult Probation and Parole Officer Retirement Fund to LASERS. In addition, the Fund will pay \$391,000 to LASERS annually during the measurement period to amortize the UAL created by HB 478.

Revenues:

- LASERS revenue will increase by the additional amounts paid by the Department of Public Safety and Corrections in additional employer contributions and from amounts paid from the Fund.

LASERS has not provided any information regarding additional costs it may incur to implement and administer the provisions of HB 478.

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