2011 REGULAR SESSION
ACTUARIAL NOTE HB 571

House Bill 571 HLS 11RS-449 Original **Author: Representative Joel C. Robideaux** **Date: May 18, 2011** **LLA Note HB 571.01** **Organizations Affected:** **State Retirement Systems** **OR INCREASE APV**	**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/STATE SYSTEMS: Relative to state retirement systems. Makes changes to provisions affected by Act 992 of the 2010 Regular Session.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Actuarial Cost
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	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 HB 571 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	$ 0	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

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Bill Information:

Provisions of HB 571 are compared below with provisions of current law.

RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:203 TRSL	A member who became a member on or before December 31, 2010 may not use service credits earned while on workers' compensation to satisfy the minimum five year eligibility requirement for disability.	A member may use such service to satisfy the five year eligibility requirement for disability.	Negligible Cost
RS 11:471.1 LASERS	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disabled. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board. 6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	Negligible Savings
RS 11:612 LASERS – Hazardous Duty Plan	Various individuals employed in hazardous duty occupations are participants in the Hazardous Duty Plan	The following occupations will be added to the Hazardous Duty Plan: 1. Any person in the state fire marshal's office who is required to be a certified Firefighter I or a certified First Responder. 2. All campus chiefs of police employed by higher education who are P.O.S.T. certified with the power to arrest and who hold a commission as required for employment as such officers. 3. All personnel employed in positions required to be P.O.S.T. certified with the power to arrest who hold a commission as required for employment in such positions.	Unknown Cost
RS 11:613 LASERS – Hazardous Duty Plan	Each person employed in one of the defined hazardous duty positions on or after December 21, 2010 shall become a member of the Hazardous Duty Plan.	If a member of LASERS retired or entered DROP while covered under another sub-plan of LASERS and is reemployed under Option 1 or Option 3 of RS 11:416, such person may not become a member of the Hazardous Duty Plan.	Negligible Savings

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:614 LASERS – Hazardous Duty Plan	A member of the Hazardous Duty Plan may retire: 1. At any age with 25 or more years of service, 2. At age 55 with 12 or more years of service, 3. At any age with 20 years of service with an actuarial reduction for early retirement.	A member of the Hazardous Duty Plan who does not satisfy the eligibility requirements for retirement under the Hazardous Duty Plan may retire if he is eligible to retire under the rank and file plan as long as he accepts all other formulas, terms, and conditions that pertain to that plan.	Unknown Cost
RS 11:616 LASERS – Hazardous Duty Plan	A member of the Hazardous Duty Plan who is eligible for retirement under the provisions of the Hazardous Duty Plan may enter DROP.	A member of the Hazardous Duty Plan may also elect the Initial Benefit Option or the Annual Cost-of-Living Adjustment Option.	Negligible Cost or Savings
RS 11:618 LASERS – Hazardous Duty Plan	Benefits are provided to survivors of a member of the Hazardous Duty Plan killed in the line of duty.	Current law is retained. However, survivor benefits will not be provided if the Hazardous Duty Plan member had ever participated in DROP or had been reemployed under Option 1 or Option 3 of RS 11:416.	Negligible Savings
RS 11:620 LASERS – Hazardous Duty Plan	Current law generally provides for the transfer of service credits between other retirement systems, or sub-plans of LASERS, and the Hazardous Duty Plan.	Proposed law provide additional clarification: 1. Clarifies that transfer rules pertain to transfers between the Hazardous Duty Plan and any other sub-plan of LASERS or any other state or statewide retirement system. 2. A member may not transfer into the Hazardous Duty Plan if he had ever participated in DROP or had been reemployed under Option 1 or Option 3. 3. A member of the Hazardous Duty Plan may elect to maintain prior service credits in his existing system or plan, but if that election results in an actuarial cost to LASERS, then the member must pay such actuarial cost. 4. If a member of the Hazardous Duty Plan elects to transfer all of his service credits from another system or sub-plan to LASERS and maintains the credit at the accrual rate of the other system or plan and if the amount of funds transferred is less than the actuarial cost of such transfer, then the member must pay the actuarial cost.	Unknown Savings
RS 11:621 LASERS – Hazardous Duty Plan	The surviving spouse of a deceased member of the Hazardous Duty Plan shall receive a benefit equal to 75% of the monthly retirement benefit that was being paid to the deceased member on his date of death.	The surviving spouse of a deceased member of the Hazardous Duty Plan who was participating DROP at the time of his death will also receive a benefit equal to 75% of the monthly benefit that was being paid to the deceased member on his date of death.	Negligible Cost
RS 11:701 TRSL	Current law excludes employees in various positions from participating in TRSL.	Unclassified campus chiefs of police employed by higher education who are P.O.S.T. certified with the power to arrest are added to the list of positions excluded from participating in TRSL.	No Cost or Savings

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:783 TRSL	A member must satisfy the following criteria to be eligible to elect the initial lump sum benefit option at retirement: 1. Must not have participated in DROP, and 2. Must have attained: • Any age with 30 years of service, or • Age 55 with 25 years of service, or • Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to elect the initial lump sum benefit option at retirement: *For a member joining on or before December 31, 2011:* 1. Must not have participated in DROP, and 2. Must have attained: • Any age with 30 years of service, or • Age 55 with 25 years of service, or • Age 60 with 10 years of service. *For a member joining after December 31, 2011:* 1. Must not have participated in DROP, and 2. Must have attained: • Age 60 with 5 years of service.	Negligible Cost
RS 11:786 TRSL	A member must satisfy the following criteria to be eligible to enter DROP: ***For Members Not Participating in the Foods Services Plans*** • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to enter DROP: ***For Members Not Participating in the Food Services Plans*** *For a member joining on or before December 31, 2011:* • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service. *For a member joining after December 31, 2011:* • Must have attained: – Age 60 with 5 years of service.	Negligible Cost
RS 11:1151.1 LSERS	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child hired on or after January 1, 2011 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disable. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board.	Negligible Savings

RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:1151.1 LSERS (Continued)		6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	
RS 11:1152 LSERS	A member must satisfy the following criteria to be eligible to enter DROP: • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to enter DROP: • Must have attained eligibility for regular retirement. (Note: as a result of this language, members of LSERS who joined on or before December 31, 2010 will have to satisfy different age and service criteria than members who joined after December 31, 2010.)	Negligible Cost
RS 11:1323 STPOL	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disable. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board. 6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	Negligible Savings
RS 11:1345.9 STPOL	A survivor of a member who is a participant in the New State Police Retirement Plan applicable to members joining after December 31, 2010 and who dies while in active service but not in the line of duty shall have the same pension rights as a survivor of a member (under RS 11:1320) who joined the Old State Police Retirement Plan applicable to members joining on or before December 31, 2010.	A survivor of a member who is a participant in the New State Police Retirement Plan applicable to members joining after December 31, 2010 and who dies while in active service but not in the line of duty shall have the same pension rights as a survivor of a member (under RS 11:1323) who joined the New State Police Retirement Plan applicable to members joining after December 31, 2010.	Negligible Cost

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Actuarial costs or savings associated with the remedial portions of the HB 571 are negligible. Actuarial costs will be incurred relative to the changes made to RS 11:612 and RS 11:614. Actuarial savings will be realized relative to the changes made to RS 11:620.

Implications of the Proposed Changes

The changes made by HB 571 are remedial in nature with the exception of the changes made to RS 11:612, RS 11:614, and RS 11:620. The changes to these provisions are summarized below:

1. The changes made to RS 11:612 will allow more members of LASERS to become members of the Hazardous Duty Plan instead of becoming or remaining members of the rank and file plan.

2. The changes made to RS 11:614 will allow a member of the Hazardous Duty Plan who is not yet eligible to retire under the provisions of the Hazardous Duty Plan to retire under the rank and file provisions of LASERS if he satisfies those eligibility provisions. Therefore, some members under proposed law will be able to retire earlier that they would under current law.

3. The changes made to RS 11:620 will require the member of a Hazardous Duty Plan to pay under certain conditions the actuarial cost associated with a transfer from another system or sub-plan of LASERS.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Actuarial costs or savings associated with the remedial portions of the HB 571 are negligible. Actuarial costs will be incurred relative to the changes made to RS 11:612 and RS 11:614. Actuarial savings will be realized relative to the changes made to RS 11:620. A discussion of these costs and savings is given below:

1. Changes to RS 11:612

   There are about 110 members of LASERS who will likely cease accruing benefits under the rank and file sub-plan and who will begin to accrue benefits in accordance with the Hazardous Duty Plan. As a result, the employer normal cost is expected to increase about $300,000 a year. The present value of the cost increases for all future years for these 110 employees is estimated to be about $3.6 million.

2. Changes to RS 11:614

   There is an actuarial cost associated with allowing members of the Hazardous Duty Plan to retire early under the rank and file plan provisions of LASERS. There are a variety of offsetting factors, some increasing plan costs, others decreasing plan costs. Although the cost cannot be measured, it is not negligible.

3. Changes to RS 11:620

   Actuarial savings will be produced from the requirement that certain members of the Hazardous Duty Plan pay the actuarial cost of a transfer. There are a variety of offsetting factors, some increasing plan costs, others decreasing plan costs. Although the savings cannot be measured, it is not negligible.

We estimate that the net effect of the changes to RS 11:612, RS 11:614, and RS 11:620 will be an actuarial cost.

Other Post Retirement Benefits

HB 571 will result in an increase in the actuarial cost associated with post-retirement benefits other than pensions. The cost increase is estimated to be small or negligible.

Analysis of Fiscal Costs

HB 571 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Employer contribution requirements are expected to increase. Therefore, expenditures from the General Fund are expected to increase.

2. Expenditures from LASERS (Agy Self Generated) may increase because benefits will be paid under the new provisions of HB 571 that would not have been paid under current law.

Revenues:

- LASERS revenues (Agy Self Generated) will increase due to larger employer contributions as well as money received from employees paying the actuarial cost associated with transferred service credits.

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.

TRSL reports a one-time cost of $10,455 to implement the provisions of HB 571. LASERS, LSERS and STPOL report no increases in administrative costs.

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

[x] 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

[x] 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost

[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change