


2011 REGULAR SESSION
ACTUARIAL NOTE SB 3

Senate Bill 3 SLS 11RS-67 Engrossed with Senate Committee Amendment #1040 Author: Senator Butch Gautreaux Date: May 18, 2011 LLA Note SB 3.02 Organizations Affected: Sheriffs Pension and Relief Fund EG DECREASE 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
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Bill Header: SHERIFFS PEN/RELIEF FUND. Provides for calculation of benefits and retirement eligibility requirements. (7/1/11)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Savings, See Below
Total Five Year Fiscal Cost	
Expenditures	(\$18,900,000)
Revenues	(\$18,900,000)

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 administration or other fiscal concerns.

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

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	(2,200,000)	(4,000,000)	(5,600,000)	(7,100,000)	(18,900,000)
Annual Total	\$ 0	\$ (2,200,000)	\$ (4,000,000)	\$ (5,600,000)	\$ (7,100,000)	\$ (18,900,000)

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	0	(2,200,000)	(4,000,000)	(5,600,000)	(7,100,000)	(18,900,000)
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	\$ 0	\$ (2,200,000)	\$ (4,000,000)	\$ (5,600,000)	\$ (7,100,000)	\$ (18,900,000)

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Bill Information:

Comparison of Current Law with Proposed Law

In general, SB 3 modifies benefit provisions applicable to members who join Sheriffs’ Pension and Relief Fund (SPRF) between July 1, 2006 and January 1, 2012. SB 3 also creates a new benefit structure for members who join SPRF on or after January 1, 2012. Benefit provisions available to members under current law are compared below with benefit provisions that will be available under SB 3. Comparisons are provided separately for members who joined prior to January 1, 2012 and for members who join on or after January 1, 2012.

For Members Who Join SPRF before January 1, 2012

	Current Law	Senate Bill 3
Transferred Service	<ul style="list-style-type: none">• Service in any public retirement system may be transferred to SPRF.• If the accrual rate of the transferred service is less than the SPRF accrual rate, the member may pay for an upgrade in accordance with R.S. 11:158.	<ul style="list-style-type: none">• Service in any Louisiana public retirement system may be transferred to SPRF.• If the accrual rate of the transferred service is less than the SPRF accrual rate, the member may pay for an upgrade in accordance with R.S. 11:158.• If the member later attains eligibility for a greater accrual rate under SPRF, he may purchase a further upgrade in the benefit accrual rate relative to the transferred service. The member must pay for the upgrade in accordance with the provisions of R.S. 11:158.
Final Average Compensation for Disability Retirement	Final average compensation is based on average compensation measured over a period of 36 months	<p>For members who Joined SPRF before July 1, 2006.</p> <ul style="list-style-type: none">• Final average compensation will be based on average compensation measured over a period of 36 months. <p>For members who join SPRF on or after July 1, 2006.</p> <ul style="list-style-type: none">• Final average compensation will be based on average compensation measured over a period of 60 months. <p>Note: this change will make the final average compensation calculation for disability retirement the same as for regular retirement.</p>
Maximum Benefit	A member’s retirement benefit may not exceed a member’s final average compensation measured over a period of 36 months.	<p>For members who Joined SPRF before July 1, 2006.</p> <ul style="list-style-type: none">• A member’s retirement benefit may not exceed a member’s final average compensation measured over a period of 36 months. <p>For members who join SPRF on or after July 1, 2006.</p> <ul style="list-style-type: none">• A member’s retirement benefit may not exceed a member’s final average compensation measured over a period of 60 months.
Option 5 Benefit	A member who selects Option 5 receives a benefit equal to 90% of maximum benefit. Upon his death, his surviving spouse receives a benefit equal to 50% of the member’s maximum benefit.	A member who selects Option 5 receives a benefit equal to 90% of maximum benefit. Upon his death, his surviving spouse receives a benefit equal to 50% of the member’s reduced benefit (i.e., 50% x 90% x member’s maximum benefit).

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For Members Who Join SPRF on or after January 1, 2012

	Current Law	Senate Bill 3
Transferred Service	<ul style="list-style-type: none">• Service in any public retirement system may be transferred to SPRF.• If the accrual rate of the transferred service is less than the SPRF accrual rate, the member may pay for an upgrade in accordance with R.S. 11:158.	<ul style="list-style-type: none">• Service in any Louisiana public retirement system may be transferred to SPRF.• If the accrual rate of the transferred service is less than the SPRF accrual rate, the member may pay for an upgrade in accordance with R.S. 11:158.• If the member later attains eligibility for a greater accrual rate under SPRF, he may purchase a further upgrade in the benefit accrual rate relative to the transferred service. The member must pay for the upgrade in accordance with the provisions of R.S. 11:158.
Final Average Compensation for Disability Retirement	Final average compensation is based on average compensation measured over a period of 36 months	Final average compensation will be based on average compensation measured over a period of 60 months.
Eligibility for Retirement Benefits	<p>A member may retire with an unreduced benefit if:</p> <ol style="list-style-type: none">1. He has 12 or more years of service and is at least age 55, or2. He has 30 or more years of service at any age.	<p>A member may retire with an unreduced benefit if:</p> <ol style="list-style-type: none">1. He has 12 or more years of service and he is at least age 62, or2. He has 20 or more years of service and he is at least age 60, or3. He has 30 or more years of service and is at least age 55. <p>Service maintained pursuant to a reciprocal agreement with another retirement system may not be used to satisfy the 30 years of service eligibility requirement.</p> <p>Transferred service with an accrual rate of less than 3 1/3% per year of service may not be used to satisfy the 30 years of service eligibility requirement unless the member elects to purchase an upgrade in the accrual rate to 3 1/3%.</p>
Benefit Accrual Rate	The benefit accrual rate is 3 1/3% per year of service.	<p>The benefit accrual rate will be 3.0% per year of service.</p> <p>If a member retires with 30 or more years of service, the benefit accrual rate will be 3 1/3% for all years of service.</p>
Early Retirement	<p>A member may retire early with an actuarially reduced benefit if he has 20 or more years of service and is at least age 50. The actuarial reduction is based on the number of years and months that the member is retiring prior to age 55.</p> <p>An active member (one who is not in a deferred retirement status) who has 10 or more years of service and is at least age 60 may retire with an actuarially reduced benefit. The actuarial reduction is based on the number of years and months that the member is retiring prior to his earliest retirement age assuming he had continued in service.</p>	<p>A member may retire early with an actuarially reduced benefit if he has 20 or more years of service and is at least age 50. The actuarial reduction is based on the number of years and months that the member is retiring prior to age 60.</p>

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	Current Law	Senate Bill 3
Maximum Benefit	A member’s retirement benefit may not exceed a member’s final average compensation measured over a period of 36 months.	A member’s retirement benefit may not exceed a member’s final average compensation measured over a period of 60 months.
Option 5 Benefit	A member who selects Option 5 receives a benefit equal to 90% of maximum benefit. Upon his death, his surviving spouse receives a benefit equal to 50% of the member’s maximum benefit.	A member who selects Option 5 receives a benefit equal to 90% of maximum benefit. Upon his death, his surviving spouse receives a benefit equal to 50% of the member’s reduced benefit (i.e., 50% x 90% x member’s maximum benefit).

Implications of the Proposed Changes

The changes SB 3 makes relative to members who joined SPRF on or after July 1, 2006 and before January 1, 2012 are generally technical in nature, designed to make additional changes to those made when the benefit structure was changed effective July 1, 2006 (Act 721). SB 3 also establishes an entirely new benefit structure for members who join SPRF on or after January 1, 2012. Benefit provisions under the new structure are less generous than under the old.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Provisions of SB 3 Affecting Pre 2012 Members

The provisions of SB 3 affecting members of SPRF who join the system before January 1, 2012 are remedial; making changes to plan provisions that were intended to be included in Act 721 of 2006, but were omitted. Because these new provisions are more restrictive than current provisions, the plan will incur a small amount of actuarial savings. However, the savings are negligible relative to the total cost of the retirement system.

Provisions of SB Affecting Post 2012 Members

SB 3 will have the following effects on actuarial values associated with SPRF:

- 1. The normal cost for SPRF is estimated to decline over the next five years (as post 2012 members replace pre 2012 members) in accordance with the following schedule:

Fiscal Year	Reduction in Normal Cost Rate	Normal Cost Rate
2011-12	n/a	13.64%
2012-13	0.34%	13.30%
2013-14	0.26%	13.04%
2014-15	0.22%	12.82%
2015-16	0.19%	12.63%

- 2. The employer contribution rate for SPRF will be 13.64% of pay for the 2011-12 fiscal year. When the new benefit structure fully matures (i.e., when there are no longer any members of the retirement system who were hired before January 1, 2012), the employer contribution rate for the plan will be only 11.26% of pay, 2.38% of pay lower than it is now. This will save \$14.9 million a year based on a \$625 million annual payroll.

In preparing this estimate, the actuary for the plan has assumed the average retirement age for members who join SPRF after January 1, 2012 will be greater than the average retirement age that is assumed for current members. The average retirement age will increase because requirements for retirement eligibility will increase under SB 3 and because members will have to work longer (a total of 30 years) in order to obtain benefit accruals equal to 3 1/3% per year of service. We concur with the assumption made by the system actuary.

This estimate is based on information provided to the Office of the Louisiana Legislative Auditor by the actuary for SPRF. The actuaries for the LLA have reviewed this information and believe it fairly represents the savings attributable to the provisions of SB 3.

Other Post Retirement Benefits

Costs associated with post-retirement benefits other than pension are likely to decrease for members joining SPRF after January 1, 2012. These costs will decrease because it is likely that these members will retire at an older age than current members.

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Analysis of Fiscal Costs

The effects of SB 3 on fiscal cost over the five year measurement period are summarized below:

Expenditures:

- 1. Expenditures from SPRF (Agy Self Generated) are not likely to change over the next five years, because very few members will be commencing a benefit during this period based on the new benefit structure.
- 2. Employer contribution requirements (expenditures from local funds) will be reduced by the following amounts:

Fiscal Year	Savings
2011-12	\$ 0.0 million
2012-13	2.2 million
2013-14	4.0 million
2014-15	5.6 million
2015-16	7.1 million

This estimate is based on an estimated \$625 million payroll in 2011-12 increasing 3% a year thereafter.

Revenues:

- 1. SPRF revenues (Agy Self Generated) will decrease by the same amounts as shown above for reductions in employer contributions.

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