2011 REGULAR SESSION
ACTUARIAL NOTE SB 6

Senate Bill 6 SLS 11RS-103 **Engrossed with Senate Committee Amendments #1038** **Author: Senator D. A. "Butch" Gautreaux** **Date: May 24, 2011** **LLA Note SB 6.02** **Organizations Affected:** **Teacher's Retirement System of Louisiana** **EG ACTUARIAL SAVINGS**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: TEACHERS RETIREMENT: Provides for continued payment of the unfunded accrued liability portion of employer contributions after participation ceases. (6/30/11)

Cost Summary:

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

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	Actuarial Savings
Other Post Retirement Benefits	$0
Total	Actuarial Savings

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	See Below	See Below	See Below	See Below	See Below	See Below
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	See Below	See Below	See Below	See Below	See Below	See Below
Annual Total	See Below	See Below	See Below	See Below	See Below	See Below

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	See Below	See Below	See Below	See Below	See Below	See Below
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	See Below	See Below	See Below	See Below	See Below	See Below

<u>Bill Information:</u>

Current Law

Current law does not require employers who terminate participation in Teachers' Retirement System of Louisiana (TRSL) from paying its proportionate share of the unfunded accrued liability.

Proposed Law

Proposed law will require any employer participating in TRSL that terminates its participation in the retirement system for some or all of its employees to pay its proportionate share of the unfunded liability of the retirement system. Employers must pay their proportionate share if:

1. The employer terminates participation in TRSL for all of its employees, or

2. The employer eliminates positions through privatizing, outsourcing, or contracting the service with a private employer, or any other means, or

3. The employer converts a school or entity under the employer's jurisdiction to any other governance model or any other entity.

The payment amount will be calculated by the system's actuary in performing the annual valuation as of the June 30 immediately prior to the employer's termination date. This amount shall include any legacy costs attributable to the retirees of the employer. Should the employer disagree with the amount determined by the system's actuary, it may appeal to PRSAC. The Legislative Auditor will then make an independent determination of the amount due. PRSAC will then render a final determination.

The terminating employer may pay the determined amount in a single lump sum payment or may pay over a ten year period or less in equal monthly installments calculated using the valuation interest rate.

Implications of the Proposed Changes

An employer participating in TRSL that terminates its participation in the retirement system for some or all of its employees will be required to pay its proportionate share of the unfunded accrued liability as of the June 30 valuation date immediately prior to its separation. Given the cost that may be incurred, a TRSL participating employer will have to more carefully consider the full financial implications of its actions.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

Under SB 6, an employer must pay its proportionate share of the unfunded accrued liability, if any, when it takes actions that terminates its participation in the retirement system for some or all of its employees. Currently, an employer that takes such actions shifts its responsibility for UAL payments to all remaining employers. By doing so, the separating employer avoids paying for liabilities associated with its own workforce. SB 6 will correct this perceived inequity between employers.

The net overall effect of SB 6 will be a net decrease in the actuarial cost of the retirement system.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 6 or post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Enactment of SB 6 will have the following effect on fiscal costs over the next five year period.

Expenditures:

1. If an employer elects to withdraw from TRSL, SB 6 will require full payment of its proportionate share of the UAL. As a result, the UAL will be reduced faster than it would have been otherwise and contribution requirements for all other employers will be reduced. Expenditures from the General Fund will be reduced to the extent that employer contributions are made directly from the General Fund to TRSL or to the extent that MFP payments to school districts will be adjusted in future years.

2. Expenditures from local funds (school districts) will be reduced to the extent that future employer contribution requirements will be reduced due to early payment of the UAL for departing employers. Expenditures from local funds will increase for years in which an employer elects to cease participation in TRSL and is required to pay its proportionate share of the UAL in a lump sum amount.

Revenues:

- TRSL revenues (Agy/Self Generated) will increase for years in which an employer elects to cease participation in the retirement system. TRSL will receive that employer's proportionate share of the UAL as a lump sum payment. TRSL revenues will decrease to the extent that contribution requirements can be reduced because of the early payment of the departing employer's share of the UAL.

The timing of an employer's departure from participation in TRSL cannot be predicted. But if such a departure occurs, there will be a net decrease in fiscal costs.

TRSL reports that additional costs associated with SB 6 are insignificant and can be absorbed within its current budget.

The Legislative Auditor reports that its administrative costs will depend on the size of the organization that terminates its participation in TRSL. It will implement the provisions of SB 6 in the following manner in order to minimize administrative costs.

***Step 1* –** Review the procedures developed by the system's actuary determine the cost.

***Step 2* –** If the procedures developed by the system's actuary are reasonable and appropriate in the opinion of the actuary for the Legislative Auditor (LLA actuary), he will audit the calculations made by the system's actuary and notify PRSAC of his approval of the calculations so made.

***Step 3* –** If the procedures developed by the system's actuary are not reasonable or are not appropriate in the opinion of the actuary for the Legislative Auditor, the LLA actuary will identify and summarize the differences of opinion in a report to PRSAC. PRSAC will then meet to review the alternative positions and render their decision. The LLA actuary will then audit the calculations made by the system's actuary and notify PRSAC of his approval of the calculations so made.

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