2011 REGULAR SESSION
ACTUARIAL NOTE SB 9

Senate Bill 9 SLS 11RS-44 **Engrossed with Senate Committee Amendments #1001** **Author: Senator D. A. "Butch" Gautreaux** **Date: June 17, 2011** **LLA Note SB 9.02 REVISED** **Organizations Affected:** **Louisiana State Employees' Retirement System** **EG DECREASE APV**	**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**

<u>Bill Header:</u> RETIREMENT CREDIT. Allows members of the Louisiana Employees' Retirement System (LASERS) to purchase service credit for purposes of retirement eligibility. (7/1/11)

<u>Cost Summary:</u>

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

<u>Estimated Actuarial Impact:</u>

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 **<u>not</u>** include present value costs associated with administration or other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	**<u>Increase (Decrease) in The Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	Actuarial Savings
Other Post Retirement Benefits	$0
Total	Actuarial Savings

Changes in the unfunded accrued liability of the retirement system resulting from SB 9, if any, 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.

<u>Estimated Fiscal Impact:</u>

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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Increase	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

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Bill Information:

Current Law

Current law provides that a member of LASERS who has at least five years of service may purchase up to five additional years of service credit that may be used for benefit calculation purposes, but not for benefit eligibility. To obtain the credit the member is required to pay to LASERS the greater of:

1. The actuarial cost of such service credits calculated in accordance with the actuarial cost provisions of R.S. 11:158, or

2. Employee and employer contributions plus interest based on the member's current salary.

LASERS has administered current law by assigning a $0 value to item 2.

This actuarial note is not based on the law as written, but rather on the law as implemented and administered by LASERS.

Proposed Law

Under proposed law, terms used in the phrase "employee and employer contributions plus interest based on the member's current salary" will be clearly defined. As a result, the calculation of the purchase price for the benefit service will include a calculation for "employee and employer contributions plus interest based on the current member's salary".

Under proposed law, a member of LASERS with at least five years of service may purchase additional service credits as follows:

1. He may purchase 5 years of benefit and eligibility service.

2. He may purchase 5 years of eligibility service if he had previously purchased 5 years of benefit service.

Note: He may not purchase under current law or under proposed law 5 years of eligibility service without having or obtaining the corresponding benefit service.

Such service must be purchased in one year increments. To obtain this credit, the member will be required to pay to LASERS the greater of 1 and 2 below.

1. The actuarial cost of such service credits calculated in accordance with R.S. 11:158, or

2. Employee and employer contributions based on the member's current salary plus interest.

If the member had previously purchased benefit service and is now purchasing corresponding eligibility service, the payment identified above will be adjusted to ensure that the sum of the previous payment accumulated with interest and the current payment does not exceed the amount that he would have had to pay if he was currently purchasing both benefit and eligibility service.

SB 9 will allow a member to retire earlier than he would have otherwise. The member will be required to pay the full cost of his health insurance premiums between the time he retires and the time he would have been able to retire had he not purchased eligibility service credits.

Implications of the Proposed Changes

SB 9 will allow members to purchase additional service credits and as a result will give members of LASERS added flexibility in timing their retirement. However, to obtain the additional flexibility, the member must pay the greater of the full actuarial cost associated with benefit rights gains, or the value of "employee and employer contributions plus interest based on the member's current salary." SB 9 specifies how "employee and employer contributions plus interest based on the member's current salary" is to be calculated. As a result, this portion of the purchase price calculation will have a value that exceeds the $0 amount currently being used by LASERS.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

LASERS incurs anti-selection costs relative to the law as currently written and administered. The cost is small; it is not measurable; but it does exist. As a result of SB 9, anti-selection costs will increase because even more opportunity will be given for members to use their superior knowledge about themselves to take advantage of the retirement system. The cost will still be small, not measurable, but will nevertheless exist.

On the other hand, amounts paid by members, in the aggregate, for service credits will increase. Currently, all members pay the actuarial cost of the service credits. If SB 9 is enacted, many members will pay "employee and employer contributions plus interest based on the member's current salary" – an amount that could be significantly larger for these members than the actuarial cost. As a general rule, the price for the service credits is more apt to be "employee and employer contributions" for members who purchase the credits early in their career. The price is more apt to be the actuarial cost for members who purchase the cost near retirement. At the end of the day, however, amounts that must be charged by LASERS under SB 9 for the service credits will increase in the aggregate. The increase will not be insignificant; although it is not measurable, it does exist.

In light of this, there is a small increase in the actuarial cost associated with SB 9 because of anti-selection, but there is a larger offsetting increase in actuarial savings due to the increase in the purchase price. The net effect of SB 9 will be net actuarial savings to the retirement system.

Other Post Retirement Benefits

Anti-selection costs will be incurred under SB 9 for post-retirement benefits other than pensions for the same reasons that anti-selection costs will be incurred relative to pension benefits. These costs are negligible.

Analysis of Fiscal Costs

Enactment of SB 9 will have the following effects on fiscal expenditures and revenues.

Expenditures:

1. Expenditures from the General Fund will decrease.

    a. The employer contribution rate for LASERS will change as follows:

        1) The rate will increase due to anti-selection costs.

        2) The rate will decrease due to full implementation of the cost calculation.

        These changes will partially offset one another, but the net effect will be a decrease in the employer contribution rate and expenditures from the General Fund.

    b. Expenditures from the General Fund will increase due to anti-selection costs that will be incurred by OGB. The net effect on fiscal costs is negligible.

    c. The net effect on the General Fund will be a decrease in expenditures.

2. Expenditures by LASERS (Agy Self Generated) will increase due to incidences of anti-selection. Some members will elect to purchase service credits and retire immediately. Without SB 9, they would not have been able to retire and no benefit payments would have been incurred.

3. Net expenditures in total will decrease during the five year fiscal measurement period.

Revenues:

1. General Fund revenues will increase to the extent that employees who retire earlier than they would have otherwise will be paying premiums for health insurance that otherwise would not have been paid.

2. LASERS revenues (Agy Self generated) will increase because members will be required to pay for the service credits that they purchase. LASERS revenues (Agy Self Generated) will decrease because the larger purchase price will cause employer contribution rates to decrease. The net effect will be an increase in revenues during the five year fiscal measurement period.

The net effect on expenditures and revenues to the General Fund, to LASERS and to OGB will be actuarial savings. Costs or savings will be incurred in the future but cannot be separately identified. Cost or savings, when they do occur, will be recognized in the aggregate with other actuarial gains and losses subject to 30 year amortization.

LASERS anticipates no additional administrative costs associated with SB 9.

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