2011 REGULAR SESSION
ACTUARIAL NOTE HB 478

House Bill 478 HLS 11RS-380
Engrossed with House Committee Amendments #2238

Author: Representative Jack Montoucet
Date: June 1, 2011

LLA Note HB 478.02

Organizations Affected:
Louisiana State Employees' Retirement System

EG +$7,800,000 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 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	$6,464,000
Revenues	$6,464,000

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.

Actuarial Cost (Savings) to:	Increase (Decrease) in The Actuarial Present Value
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	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	0
Stat Deds/Other	3,000,000	866,000	866,000	866,000	866,000	6,464,000
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 3,000,000	$ 866,000	$ 866,000	$ 866,000	$ 866,000	$ 6,464,000

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	3,000,000	866,000	866,000	866,000	866,000	6,464,000
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	$ 3,000,000	$ 866,000	$ 866,000	$ 866,000	$ 866,000	$ 6,464,000

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<u>Bill Information:</u>

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	*If Employed before 8/15/1986:* • Any age with 20 years of service • Age 60 with 5 years of service *If Employed on or after 8/15/1986:* • Age 50 with 20 years of service • Age 60 with 5 years of service	• 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 ***Not*** 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 are added to the fund annually from fees charged to parolees. Monies are accumulated 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:

        Benefit = (3.0% x Service before 7/1/2011 + 3 1/3% x Service on or after 7/1/2011) x 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:

        Benefit = (3.0% x Service before Transfer Date + 3 1/3% x Service on or after Transfer Date) x FAC

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:

Benefit = (3.0% x Service before Transfer Date + 3 1/3% x Service on or after Transfer Date) x FAC.

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. The unfunded accrued liability created by the benefit provisions of HB 478 will be measured effective with the June 30, 2011 actuarial valuation for LASERS. The UAL so determined will be amortized over a period of 10 years in accordance with the provisions of Article 10 Section 29(F) of the Louisiana Constitution.

2. $3,000,000 will be transferred on or before September 30, 2011 from the Adult Probation and Parole Officer Retirement Fund to LASERS.

3. The $3,000,000 transfer shall be first used by LASERS to offset or pay for the increase in normal cost for 2011-12 attributable to the benefit improvement provisions of HB 478.

4. The $3,000,000 transfer shall next be used by LASERS to offset or pay the amortization payment for 2011-12 associated with the increase in the unfunded accrued liability created by the benefit provisions of HB 478.

5. The remainder of the $3,000,000 transfer shall be used to:

   a. Pay for any refunds to officers who request a refund for a prior upgrade in service credits.

   b. Reduce the balance of the unfunded accrued liability created by the benefit provisions of HB 478.

6. The UAL balance on June 30, 2012 shall be amortized over a 9 year period.

7. For each year after 2011-12, an amount will be transferred from the Adult Probation and Parole Officer Retirement Fund to LASERS. The amount to be transferred will be equal to normal and amortization costs attributable to the benefit provisions of HB 478 plus any amount paid to officers requesting a refund for a prior upgrade in service credits.

8. The UAL balance on June 30, 2013 attributable to HB 478 shall be amortized over a period of 8 years. The amortization period for UAL balances on each subsequent valuation date shall be reduce by one each year.

9. Any unpaid portion of an amortization or normal cost payment provided for in proposed law for a particular fiscal year shall be included in the next year's system valuation as part of an individualized calculation to be paid from the Adult Probation and Parole Officer Retirement Fund.

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 a 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. The source of funds to pay for the benefit provisions of HB 478 is the Adult Probation and Parole Officer Retirement Fund. The balance in the fund as of June 30, 2011 has been projected to exceed $3,000,000. Annual deposits into this fund are projected to be about $1.3 million a year.

2. The financial effect on LASERS of the benefit provisions of HB 478 is shown below:

Cost Component	Increase/(Decrease)
Present Value of Benefits	$ 7,800,000
Present Value of Future Normal Costs	2,600,000
Unfunded Accrued Liability	5,200,000
Normal Cost	$ 418,000

3. The $3,000,000 transfer from the Adult Probation and Parole Officer Retirement Fund will be allocated in 2011-12 in the following manner:

Cost Component	Increase/(Decrease)
Normal Cost	$ 418,000
Annual Amortization of the Unfunded Accrued Liability	753,000
Reduction of the UAL	1,829,000
Total	$ 3,000,000

4. Transfer amounts for 2012-13 and later years will be equal to the following.

Cost Component	Increase/(Decrease)
Normal Cost	$ 418,000
Annual Amortization of the Unfunded Accrued Liability	448,000
Total	$ 866,000

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. 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.

2. Expenditures from State Dedicated Funds will increase $3,000,000 in 2011-12 for the amount required to be transferred from the Adult Probation and Parole Officer Retirement Fund to LASERS. The Fund will pay $866,000 to LASERS annually thereafter during the measurement period to fund additional amortization and normal costs created by HB 478.

Revenues:

- LASERS revenues (Agy Self Generated) will increase by the amounts received from the Adult Probation and Parole Officer Retirement 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.

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Dual Referral:

Senate	House
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[x] 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