2011 REGULAR SESSION
ACTUARIAL NOTE HB 530

House Bill 530 HLS 11RS-501 Engrossed with House Committee Amendments #2214 **Author: Representative Kevin Pearson** **Date: June 6, 2011** **LLA Note HB 530.02** **Organizations Affected:** **State Retirement Systems** **EG -$19,212,000 FC GF EX**	**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, increases employee contributions and average compensation for calculation of benefits.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	$(346,000,000)
Total Five Year Fiscal Cost	
Expenditures	$(298,174,000)
Revenues	$(103,174,000)

The present value of savings to employers participating in LASERS and higher education employers participating in TRSL is estimated to be about $926 million. This includes savings of $346 million attributable a reduction of future benefits and savings of $580 million attributable to an increase in employee contribution requirements. Reimbursements from the Federal government, as measured on a present value basis, will be reduced.

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	$(346,000,000)
Other Post Retirement Benefits	Actuarial Savings
Total	$(346,000,000)

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	$ (18,367,000)	$ (18,367,000)	$ (19,212,000)	$ (20,919,000)	$ (22,627,000)	$ (99,492,000)
Agy Self Generated	300,000	Decrease	Decrease	Decrease	Decrease	300,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	(36,733,000)	(36,733,000)	(38,423,000)	(41,839,000)	(45,254,000)	(198,982,000)
Local Funds	Incl Above	Incl Above	Incl Above	Incl Above	Incl Above	Incl Above
Annual Total	$ (54,800,000)	$ (55,100,000)	$ (57,635,000)	$ (62,758,000)	$ (67,881,000)	$ (298,174,000)

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	(55,100,000)	(27,200,000)	(1,835,000)	(6,958,000)	(12,081,000)	(103,174,000)
Stat Deds/Other	0	0	0	0	0	0
Federal Funds *	See Below*	See Below*	See Below*	See Below*	See Below*	See Below*
Local Funds	0	0	0	0	0	0
Annual Total	$ (55,100,000)	$ (27,200,000)	$ (1,835,000)	$ (6,958,000)	$ (12,081,000)	$ (103,174,000)

* Decreases in Federal Revenue will be less than the $198,982,000 shown. The actual amount of decrease will depend on the extent to which Federal revenues will be cut back due to anticipated reductions in the cost of human resources for agencies of the state of Louisiana.

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Bill Information:

Current Law

Louisiana State Employees' Retirement System (LASERS) and Teachers' Retirement System of Louisiana (TRSL) provide various rules for the calculation of final average compensation. These rules vary from one member group to another. The differences in rules generally pertain to the number of months used in the average and in anti-spiking percentages used to control enhancements of pension benefits resulting from artificial increases in pay levels near retirement.

Employee contribution requirements also vary by retirement system and member group.

Subsection B of R.S. 11:450 contains a provision that requires certain members of LASERS employed in hazardous duty occupations to make employee contributions if they continue to work after exiting DROP.

LASERS and TRSL are funded through employer and employee contributions that are applied against the total salary of every participating active member.

Proposed Law

Final Average Compensation

Current and proposed rules pertaining to calculations of final average compensation are compared below:

Comparison of Final Average Compensation Periods and Anti-Spiking Percentages

	Current Law		House Bill 530
LASERS – Rank and File; Bridge Police	For members joining before June 30, 2006:	3 yrs; 25%	1. Final Average Compensation Period will be 5 Years. 2. Anti-Spiking Percentage will be 15%. 3. These rules will apply to all members regardless of when a member joins the retirement system
	For members joining July 1 2006 to December 31, 2011:	5 yrs; 15%	
LASERS – All Other Members Hired Before 1/1/11	For members joining before January 1, 2011:	3 yrs; 25%	
LASERS – Hazardous Duty (Act 1337)	For members joining on or after January 1, 2011:	5 yrs; 15%	
TRSL - Members Employed in Higher Education	For members joining before January 1, 2011:	3 yrs; 10%	
	For members joining on or after January1, 2011:	5 yrs; 15%	

Employee Contributions

Members of LASERS and members of TRSL employed in higher education will all be required to make additional contributions beginning in 2012-13 and 2013-14.

1. All members identified above will begin contributing an additional 1% of compensation beginning July 1, 2012.

2. All members identified above will begin contributing another additional 1% of compensation beginning July 1, 2013.

For example, if an member is currently contributing 8% of compensation, he will begin contributing 9% of compensation on July 1, 2012. He will then begin to contribute 10% of pay on July 1, 2013.

Technical Corrections

Subsection B of R.S. 11:450 contains a provision that requires certain members of LASERS employed in hazardous duty occupations to make employee contributions if they continue to work after exiting DROP. HB 530 removes this provision from the law because it is redundant to language that immediately precedes it.

Employer Contributions

The additional amounts contributed by employees will be used to reduce the unfunded accrued liability of the retirement systems. The amounts so collected by the retirement systems will be applied against the UAL in the following manner:

1. For LASERS, the additional amounts contributed will be used to reduce the oldest existing amortization base excluding the Original Amortization base and the Experience Account Amortization Base.

2. For TRSL, the additional amounts contributed will be used to reduce the oldest existing amortization base excluding the Original Amortization base and the Experience Account Amortization Base.

The additional employee contributions will not be used to reduce employer normal costs. However, these contributions will reduce employer contribution requirements toward the UAL.

HB 530 also requires LASERS and TRSL to adjust their June 30, 2010 valuations and will require PRSAC meet to reset employer contribution requirements for 2011-12 to be in compliance with provisions of the bill.

Implications of the Proposed Changes

HB 530 will reduce benefits payable to active members of LASERS and active members of TRSL employed in higher education. These benefit changes will reduce future normal costs, the unfunded accrued liability of the retirement systems, and future employer contributions to toward the UAL. In addition, employees will be required to make additional contributions. These contributions will be used to reduce employer contributions to the UAL.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The benefit reduction portion of HB 530 will reduce actuarial costs associated with LASERS and TRSL. The total liability (past and future) will be reduced $346.0 million. Since about two thirds of the cost of human resources is derived from Federal Funds, reimbursements from the Federal government will decrease.

Employer contribution requirements will decrease $55.1 million a year in the aggregate. Federal reimbursements are estimated to decrease. The actual amount of decrease will depend on the extent to which Federal revenues will be cut back due to anticipated reductions in the cost of human resources for agencies of the state of Louisiana. Retirement system revenues for LASERS and TRSL will decrease by about $55.1 million.

Cost Component	LASERS	TRSL	Total
Present Value of Future Benefits	$ 302.0 million	$ 44.0 million	$ 346.0 million
Reduction in the UAL	$ 227.5 million	$ 30.3 million	$ 257.8 million
Reduction in Employer Contributions for 2012-13:			
Normal Cost	$ 15.3 million	$ 2.4 million	$ 17.7 million
Amortization Payments	33.0 million	4.4 million	37.4 million
Total	$ 48.3 million	$ 6.8 million	$ 55.1 million

Members of LASERS and members of TRSL employed in higher education will contribute an additional $27.9 million in 2012-13 and an additional $55.8 million in 2013-14 and every fiscal year thereafter. These contributions will reduce the UAL that exists on June 30, 2013 and employer contributions toward the UAL for 2013-14 and later years will be reduced accordingly.

Additional employee contribution are shown below by retirement system

Retirement System	Additional Employee Contributions	
	For 2012-13	For 2013-14 and Later
LASERS	$ 24.0 million	$ 48.0 million
TRSL	3.9 million	7.8 million
Total	$ 27.9 million	$ 55.8 million

As employee contributions are applied to the UAL, employer contributions toward amortization of the UAL will decrease. Reductions in these amortization payments are summarized below:

Fiscal Year	Estimated Decreases in Employer UAL Contributions		
	LASERS	TRSL	Total
2011-12	$ 0	$ 0	$ 0
2012-13	0	0	0
2013-14	2,181,000	354,000	2,535,000
2014-15	6,596,000	1,062,000	7,658,000
2015-16	11,011,000	1,770,000	12,781,000

Although there are timing differences between when the additional employee contributions are made and when they are used to reduce employer contribution requirements, the present value of all future additional employee contributions will be applied to reduce all future employer contributions. The net present value of additional employee contributions is about $580 million. The present value of employer savings is the same, about $580 million.

Present value savings resulting from the provisions of HB 530 are summarized below:

Summary of Savings Attributable to HB 530

Provisions of HB 530	Savings to Be Realized
Benefit Provisions	$ 346 million
Employee Contribution Provisions	$ 580 million
Total	$ 926 million

Other Post Retirement Benefits

HB 530 should produce a reduction in the actuarial cost associated with post-retirement benefits other than pensions. A cost reduction should occur because benefits will be reduced making it likely that at least some members will postpone retirement until they accumulate a pension equal to what they otherwise would have been entitled without HB 530.

Analysis of Fiscal Costs

HB 530 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from General Funds and Local Funds will decrease because the benefit reduction will lead to lower employer contribution requirements (a reduction of $18,367,000 a year beginning in 2011-12).

2. Expenditures from General Funds and Local Funds will decrease because employer contribution requirements payable out of the General Fund to amortize the UAL will be smaller beginning in 2013-14 ($845,000 smaller in 2013-14, $2,552,000 smaller in 2014-15, and $4,260,000 smaller in 2015-16).

3. Expenditures from the retirement systems (Agy Self Generated) will decrease reflecting smaller pensions due to HB 530. The size of the reductions will depend on the actual number of persons who retire between July 1, 2011 and June 30, 2016.

4. Expenditures from Federal Funds will decrease because the benefit reduction will lead to lower employer contribution requirements (a reduction of $36,733,000 a year beginning in 2012-13).

5. Expenditures from Federal Funds will decrease because employer contribution requirements payable out of Federal Funds to amortize the UAL will be smaller beginning in 2013-14 ($1,690,000 smaller in 2013-14, $5,106,000 in 2014-15, and $8,521,000 in 2015-16).

Revenues:

1. Revenues (Agy Self Generated) will increase due to the increase in employee contribution requirements ($27.9 million in 2012-13, $55.8 million in 2013-14, $55.8 million in 2014-15, and $55.8 million in 2015-16).

2. Revenues (Agy Self Generated) will decrease because employer contribution requirements will decrease due to the benefit reduction ($55,100,000 beginning in 2011-12).

3. Revenues (Agency Self Generated) will decrease beginning 2013-14 because of the reduction in employer contributions toward amortization of the UAL attributable to increases in employee contributions ($2,535,000 smaller in 2013-14, $7,658,000 smaller in 2014-15, and $12,781,000 smaller in 2015-16).

4. Revenues received from the Federal government and deposited into the State's Federal Funds account will decrease as a result of HB 530. The federal government reimburses Louisiana for eligible costs related to federal programs. Employee costs are part of the reimbursement, which includes the costs of benefits. Not all hours worked by employees are reimbursed by the federal government because only employee time actually spent working on federal programs is requested for reimbursement. If employee contributions increase, then the employer contribution rate will decrease. If the employer contribution rate decreases then the amount asked for and recovered from federal funds for employee benefits will be reduced. In some cases agencies may be able to draw upon federal funds for purposes other than employee benefits. Any federal revenues that are lost due to HB 530 will be offset by the increase in employee contributions.

The retirement systems report that a substantial administrative cost will be incurred in 2011-12 to implement HB 530. Based on information supplied by the retirement systems, we estimate a one-time administrative cost, in the aggregate, to be about $300,000.

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**
[x] 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