DIGEST

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Pearson HB No. 530

Abstract: Relative to the La. State Employees' Retirement System (LASERS) and the Teachers' Retirement System of La. (TRSL) changes from a three-year to a five-year Final Average Compensation (FAC) for state employees and higher education employees. Provides for payment of Unfunded Accrued Liability (UAL).

AVERAGE COMPENSATION

Present law generally provides for a benefit calculation formula for members of each state system typically consisting of: (years of service) x (accrual rate) x (final average compensation).

Present law (R.S. 11:403(5) and 701(5)), relative to LASERS and TRSL provides varying periods of FAC for members of those systems ranging from three to five years. FAC periods for LASERS and TRSL are as follows:

(1) LASERS: Rank-and-file members hired on or before June 30, 2006, have a three-year FAC. Rank-and-file members hired after such date have a five-year FAC.

(2) LASERS: Special groups such as the governor, lieutenant governor, and legislators, hired on or before Dec. 31, 2010, have a three-year FAC. Such members hired on or after January 1, 2011, have a five-year FAC.

(3) LASERS: Certain hazardous duty groups hired on or before Dec. 31, 2010, have a three-year FAC. Such members hired on or after Jan. 1, 2011, have a five-year FAC.

(4) TRSL: Members hired on or before Dec. 31, 2010, have a three-year FAC. Members hired on or after Jan. 1, 2011, have a five-year FAC.

Proposed law provides that all members of LASERS and higher education employees in TRSL shall have a five-year FAC.

Proposed law further provides, as a transition provision, that proposed law shall not cause the average compensation of any member retiring on or after the effective date of proposed law to be less than such member's average compensation as it existed under present law when proposed law becomes effective.

EMPLOYER CONTRIBUTIONS / UNFUNDED ACCRUED LIABILITY

Present law (R.S. 11:102) generally provides the method for actuarially determining the employer contribution rate for state retirement systems every fiscal year. Such employer contribution shall be a percentage of the total payroll of active members in a given system. Requires each employer paying a portion of a member's salary to fund the employer contribution on that portion of the member's salary. Employer costs consist mainly of two parts: (1) an amortization payment on the system's debt, known as the "Unfunded Accrued Liability" (UAL); and (2) a payment for the current year's benefits, known as "normal cost".

Present law (R.S. 11:102, 102.1, and 102.2) generally provides for various amortization schedules for different portions of the UAL.

Proposed law provides that actuarial gains or savings resulting from proposed law change to a five-year FAC shall be applied to the amortization base resulting from the change in liability recognized on June 30, 2009. Further provides that such gains shall not be used to reduce the system's normal cost.

Proposed law provides that the Public Retirement Systems' Actuarial Committee (PRSAC) shall meet as soon as practicable to adopt revised valuations and employer contribution rates for LASERS and TRSL.

Proposed law provides that in the event proposed law is declared by a court to be unconstitutional as applied to vested members of LASERS and TRSL, proposed law shall only apply to non-vested members.

Effective June 30, 2011. However, if the Act originating as HB No. 479 of 2011 R.S. is enacted, proposed law shall be null, void, and of no effect.

(Amends R.S. 11:403(5), 450(B), 612(1), and 701(5)(b) through (e); Adds R.S. 11:102(D) and 701(5)(f))

Summary of Amendments Adopted by House

Committee Amendments Proposed by House Committee on Retirement to the original bill.

1. Removes proposed changes to the State Police Pension and Retirement System.

2. Changes the employee contribution increase for members to whom proposed law applies from 1.5% on the first $50,000 of earnings and 3% on earnings over $50,000 to a flat 1% increase beginning July 1, 2012, and an additional 1% increase beginning July 1, 2013.

3. Provides that instead of being applied to reducing employer contributions derived from State General Funds, the increased employee contributions implemented by proposed law shall be applied to LASERS' and TRSL's UAL.

4. Provides that employee contribution increases implemented by proposed law shall not apply to ORP participants in TRSL.

5. Retains "anti-spiking" provisions (percentage limitations on a member's FAC period) contained in present law rather than lowering the allowable increases.

6. Provides that if proposed law is declared by a court to be unconstitutional as applied to vested members of LASERS and TRSL, proposed law shall only apply to non-vested members.

7. Changes the effective date of proposed law from July 1, 2011, to June 30, 2011, and provides further that if the Act originating as HB No. 479 of 2011 R.S. is enacted, proposed law shall be null, void, and of no effect.

House Floor Amendments to the engrossed bill.

1. Removes provisions requiring an increase in employee contributions for members of LASERS and members of TRSL employed in higher education.

2. Provides that the savings resulting from proposed law change from a three-year FAC to a five-year FAC shall be applied to the portion of the systems' Unfunded Accrued Liabilities (UAL) recognized on June 30, 2009.