2011 REGULAR SESSION
ACTUARIAL NOTE HB 571

House Bill 571 HLS 11RS-449 Reengrossed with House Appropriation Committee Amendment #2689 **Author: Representative Joel C. Robideaux** **Date: June 9, 2011** **LLA Note HB 571.03** **Organizations Affected: State Retirement Systems** **RE 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**

Bill Header: RETIREMENT/STATE SYSTEMS: Relative to state retirement systems. Makes changes to provisions affected by Act 992 of the 2010 Regular Session.

Cost Summary:

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

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	No Actuarial Costs or Savings
Total	Actuarial Savings

Changes in the unfunded accrued liability of the retirement system resulting from HB 571, 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.

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	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Increase	Decrease	Decrease	Decrease	Decrease	Decrease

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	Increase	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

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Bill Information:

Provisions of HB 571 are compared below with provisions of current law.

RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:62 LSERS	The employee contribution rate is the following: 1. 7.5% for a member joining on or before December 31, 2010. 2. 8.0% for a member joining on or after January 1, 2011.	The employee contribution rate is the following: 1. 7.5% for a member joining on or before June 30, 2010. 2. 8.0% for a member joining on or after July 1, 2010.	Unknown Savings
RS 11:203 TRSL	A member who became a member on or before December 31, 2010 may not use service credits earned while on workers' compensation to satisfy the minimum five year eligibility requirement for disability.	A member may use such service to satisfy the five year eligibility requirement for disability.	Negligible Cost
RS 11:471.1 LASERS	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disabled. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board. 6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	Negligible Savings
RS 11:613 LASERS – Hazardous Duty Plan	Each person employed in one of the defined hazardous duty positions on or after December 21, 2010 shall become a member of the Hazardous Duty Plan.	If a member of LASERS retired or entered DROP while covered under another sub-plan of LASERS and is reemployed under Option 1 or Option 3 of RS 11:416, such person may not become a member of the Hazardous Duty Plan.	Negligible Savings

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:614 LASERS – Hazardous Duty Plan	A member of the Hazardous Duty Plan may retire: 1. At any age with 25 or more years of service, 2. At age 55 with 12 or more years of service, 3. At any age with 20 years of service with an actuarial reduction for early retirement.	A member of the Hazardous Duty Plan who does not satisfy the eligibility requirements for retirement under the Hazardous Duty Plan may retire if he is eligible to retire under the rank and file plan as long as he accepts all other formulas, terms, and conditions that pertain to that plan.	Unknown Cost
RS 11:616 LASERS – Hazardous Duty Plan	A member of the Hazardous Duty Plan who is eligible for retirement under the provisions of the Hazardous Duty Plan may enter DROP.	A member of the Hazardous Duty Plan may also elect the Initial Benefit Option or the Annual Cost-of-Living Adjustment Option.	Negligible Cost or Savings
RS 11:618 LASERS – Hazardous Duty Plan	Benefits are provided to survivors of a member of the Hazardous Duty Plan killed in the line of duty.	Current law is retained. However, survivor benefits will not be provided if the Hazardous Duty Plan member had ever participated in DROP or had been reemployed under Option 1 or Option 3 of RS 11:416.	Negligible Savings
RS 11:620 LASERS – Hazardous Duty Plan	Current law generally provides for the transfer of service credits between other retirement systems, or sub-plans of LASERS, and the Hazardous Duty Plan.	Proposed law provide additional clarification: 1. Clarifies that transfer rules pertain to transfers between the Hazardous Duty Plan and any other sub-plan of LASERS or any other state or statewide retirement system. 2. A member may not transfer into the Hazardous Duty Plan if he had ever participated in DROP or had been reemployed under Option 1 or Option 3. 3. A member of the Hazardous Duty Plan may elect to maintain prior service credits in his existing system or plan, but if that election results in an actuarial cost to LASERS, then the member must pay such actuarial cost. 4. If a member of the Hazardous Duty Plan elects to transfer all of his service credits from another system or sub-plan to LASERS and maintains the credit at the accrual rate of the other system or plan and if the amount of funds transferred is less than the actuarial cost of such transfer, then the member must pay the actuarial cost.	Unknown Savings
RS 11:621 LASERS – Hazardous Duty Plan	The surviving spouse of a deceased member of the Hazardous Duty Plan shall receive a benefit equal to 75% of the monthly retirement benefit that was being paid to the deceased member on his date of death.	The surviving spouse of a deceased member of the Hazardous Duty Plan who was participating DROP at the time of his death will also receive a benefit equal to 75% of the monthly benefit that was being paid to the deceased member on his date of death.	Negligible Cost

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:783 TRSL	A member must satisfy the following criteria to be eligible to elect the initial lump sum benefit option at retirement: 1. Must not have participated in DROP, and 2. Must have attained: • Any age with 30 years of service, or • Age 55 with 25 years of service, or • Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to elect the initial lump sum benefit option at retirement: *For a member joining on or before December 31, 2011:* 1. Must not have participated in DROP, and 2. Must have attained: • Any age with 30 years of service, or • Age 55 with 25 years of service, or • Age 60 with 10 years of service. *For a member joining after December 31, 2011:* 1. Must not have participated in DROP, and 2. Must have attained: • Age 60 with 5 years of service.	Negligible Cost
RS 11:786 TRSL	A member must satisfy the following criteria to be eligible to enter DROP: ***For Members Not Participating in the Foods Services Plans*** • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to enter DROP: ***For Members Not Participating in the Food Services Plans*** *For a member joining on or before December 31, 2011:* • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service. *For a member joining after December 31, 2011:* • Must have attained: – Age 60 with 5 years of service.	Negligible Cost
RS 11:1002 LSERS	Average compensation is defined as the following: 1. 5 years with 10% anti-spiking for a member joining on or after July 1, 2006, and on or before December 31, 2010. 2. 5 years with 15% anti-spiking for a member joining on or after January 1, 2011.	Average compensation is defined as the following: 1. 5 years with 10% anti-spiking for a member joining on or after July 1, 2006, and on or before June 30, 2010. 2. 5 years with 15% anti-spiking for a member joining on or after July 1, 2010.	Unknown Savings

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:1141 LSERS	A member must satisfy the following criteria to be eligible to retire: ***For Members Hired on or before December 31, 201*** • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service. ***For Members Hired on or after January 1, 2011*** • Must have attained: Age 60 with 5 years of service.	A member must satisfy the following criteria to be eligible to retire: ***For Members Hired on or before June 30, 2010*** • Must have attained: 1. Any age with 30 years of service, or 2. Any age with 20 years of service, or 3. Age 55 with 25 years of service, or 4. Age 60 with 10 years of service. ***For Members Hired on or after July 1, 2010*** • Must have attained: 1. Any age with 20 years of service, or 2. Age 60 with 5 years of service.	Unknown Savings
RS 11:1144 LSERS	The minimum allowance for members hired on or after January 1, 2011, shall be no less than 2.5% multiplied by the total years of credited service multiplied by the average compensation.	The minimum allowance for members hired on or after July 1, 2010, shall be no less than 2.5% multiplied by the total years of credited service multiplied by the average compensation.	Unknown Savings
RS 11:1147 LSERS	A disability retiree is entitled to receive the following disability benefits upon meeting certain criteria: ***For Members Hired on or after July 1, 2006*** 1. A disability retirement benefit equal to 3% of his average compensation multiplied by his years of creditable service. 2. If the disability retiree dies and has designated a beneficiary, the beneficiary shall receive 75% of the retiree's benefit at the time of death. ***For Members Hired on or after January 1, 2011*** 1. A maximum disability retirement benefit equivalent to the regular retirement without reduction for age. 2. If the disability retiree dies and has selected a retirement option, the option selected upon disability retirement shall be applied to his disability retirement benefit.	A disability retiree is entitled to receive the following disability benefits upon meeting certain criteria: ***For Members Hired on or after July 1, 2006, but on or before June 30, 2010*** 3. A disability retirement benefit equal to 3% of his average compensation multiplied by his years of creditable service. 4. If the disability retiree dies and has designated a beneficiary, the beneficiary shall receive 75% of the retiree's benefit at the time of death. ***For Members Hired on or after July 1, 2010*** 3. A maximum disability retirement benefit equivalent to the regular retirement without reduction for age. 4. If the disability retiree dies and has selected a retirement option, the option selected upon disability retirement shall be applied to his disability retirement benefit.	Unknown Savings
RS 11:1151 LSERS	A member hired on or before December 31, 2010 is entitled to survivor benefits.	A member hired on or before June 30, 2010 is entitled to survivor benefits.	Unknown Savings

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RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:1151.1 LSERS	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child hired on or after July 1, 2010 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disable. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board. 6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	Negligible Savings
RS 11:1152 LSERS	A member must satisfy the following criteria to be eligible to enter DROP: • Must have attained: 1. Any age with 30 years of service, or 2. Age 55 with 25 years of service, or 3. Age 60 with 10 years of service.	A member must satisfy the following criteria to be eligible to enter DROP: • Must have attained eligibility for regular retirement. (Note: as a result of this language, members of LSERS who joined on or before December 31, 2010 will have to satisfy different age and service criteria than members who joined after December 31, 2010.)	Negligible Cost
RS 11:1323 STPOL	A handicapped child or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits.	A handicapped or mentally disabled child of a member hired on or after January 1, 2011 is entitled to survivor benefits, but the following provisions are added. 1. The child must be totally physically handicapped or mentally disable. 2. The child may be older or younger than age 18. 3. The child must have been in such condition at the time of the member's death. 4. The child must be dependent on the surviving spouse or other legal guardian. 5. Adequate proof of the child's condition must be made available to the Board.	Negligible Savings

RS 11:xxx and Retirement System	Current Law	Proposed Law	Estimated Actuarial Cost
RS 11:1323 STPOL (continued)		6. The Board must be notified of any changes to the child's condition causing him to no longer be dependent. 7. The Board must be notified of any changes in the assistance received from other state agencies. 8. The Board may require a certified statement of the child's continued eligibility at the end of each year.	
RS 11:1345.9 STPOL	A survivor of a member who is a participant in the New State Police Retirement Plan applicable to members joining after December 31, 2010 and who dies while in active service but not in the line of duty shall have the same pension rights as a survivor of a member (under RS 11:1320) who joined the Old State Police Retirement Plan applicable to members joining on or before December 31, 2010.	A survivor of a member who is a participant in the New State Police Retirement Plan applicable to members joining after December 31, 2010 and who dies while in active service but not in the line of duty shall have the same pension rights as a survivor of a member (under RS 11:1323) who joined the New State Police Retirement Plan applicable to members joining after December 31, 2010.	Negligible Cost

Actuarial costs or savings associated with the remedial portions of the HB 571 are negligible. Actuarial costs will be incurred relative to the changes made to RS 11:614. Actuarial savings will be realized relative to the changes made to RS 11:62, RS 11:620, RS 11:1002, RS 11:1141, RS 11:1144, RS 11:1147, and RS 11:1151.

Implications of the Proposed Changes

The changes made by HB 571 to RS 11:203, RS 11:471.1, RS 11:613, RS 11:616, RS 11:618, RS 621, RS 11:783, RS 11:786, RS 11:1151.1, RS 11:1152, RS 11:1323 and RS 11:1345.9 are remedial in nature and net costs or savings are negligible.

Changes made to RS 11:614, which are summarized below, have an unknown actuarial cost.

- The changes made to RS 11:614 will allow a member of the Hazardous Duty Plan who is not yet eligible to retire under the provisions of the Hazardous Duty Plan to retire under the rank and file provisions of LASERS if he satisfies those eligibility provisions. Therefore, some members under proposed law will be able to retire earlier that they would under current law.

Changes made to RS 11:62, RS 11:620, RS 11:1002, RS 11:1141, RS 11:1144, RS 11:1147, and RS 11:1151 produce unknown actuarial savings.

1. Under certain conditions, changes made to RS 620 will require a member of a Hazardous Duty Plan to pay the actuarial cost associated with a transfer from another system or sub-plan of LASERS.

2. Changes made to RS 11:62, RS 11:1002, RS 11:1141, RS 11:1144, RS 11:1147, and RS 11:1151 will change the effective date of the new plan for employers of LSERS from January 1, 2011 to July 1, 2010.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Actuarial costs or savings associated with the remedial portions of the HB 571 are negligible.

Actuarial costs will be incurred relative to the changes made to RS 11:614. A discussion of these costs is given below:

- Changes to RS 11:614

  There is an actuarial cost associated with allowing members of the Hazardous Duty Plan to retire early under the rank and file plan provisions of LASERS. There are a variety of offsetting factors, some increasing plan costs, others decreasing plan costs. Although the cost cannot be measured, it is not negligible.

Actuarial savings will be realized relative to the changes made to RS 11:620, RS 62, RS 11:1002, RS 11:1141, RS 11:1144, RS 11:1147, and RS 11:1151. These savings are discussed below.

1. Changes to RS 11:620

   Actuarial savings will be produced from the requirement that certain members of the Hazardous Duty Plan pay the actuarial cost of a transfer. There are a variety of offsetting factors, some increasing plan costs, others decreasing plan costs. Although the savings cannot be measured, it is not negligible.

2. Changes to RS 11:1002, RS 11:1141, RS 11:1144, RS 11:1147, and RS 11:1151

   Any member who became a member of LSERS between July 1, 2010 and December 31, 2010 will now be a member of the new LSERS plan rather than the old plan. Benefits under the new plan will be smaller than benefits under the old plan. Therefore, the changes made to these sections of RS Title 11 pertaining to LSERS will produce unknown actuarial savings.

In summary, some provisions of HB 571 are actuarially neutral, some create actuarial costs, and some create savings. The net effect of all changes combined is estimated to be actuarial savings.

1. LASERS will incur actuarial costs or savings that are negligible.

2. TRSL will incur actuarial costs or savings that are negligible.

3. LSERS will incur actuarial savings because benefits promised to members joining the system between July 1, 2010 and December 31, 2010 will be smaller.

Other Post Retirement Benefits

The effect that HB 571 will have on actuarial costs or savings associated with post-retirement benefits other than pensions cannot be measured. However, any actuarial costs or savings that do result will be negligible.

Analysis of Fiscal Costs

HB 571 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from LASERS (Agy Self Generated) may increase because benefits will be paid under the new provisions of HB 571 that would not have been paid under current law.

2. Expenditures from LSERS (Agy Self Generated) are not likely to change during the five year measurement period.

3. Expenditures from Local Funds are expected to decrease because the LSERS employer contribution rate is expected to decrease.

4. Expenditure decreases from Local Funds will exceed LASERS expenditure increases (Agy Self Generated). Therefore, net expenditures will decrease in all years of the measurement period except for FY 2012.

5. The only increase in expenditures will be in FY 2012. TRSL reports a one-time cost of $10,455 to implement the provisions of HB 571. LASERS, LSERS and STPOL report no increases in administrative costs.

Revenues:

1. LASERS revenues (Agy Self Generated) will increase due to money received from employees paying the actuarial cost associated with transferred service credits beginning in FY 2012.

2. LSERS revenues (Agy Self Generated) will decrease due to expected decreases in employer contribution requirements beginning in FY 2013.

3. The LASERS revenue increase will offset the LSERS revenue decrease in all years except FY 2012.

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

☐ 13.5.1 ≥ $100,000 Annual Fiscal Cost

☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change

House

☐ 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost

☐ 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost

☐ 6.8(G) ≥ $500,000 Annual Tax or Fee Change