2011 REGULAR SESSION
ACTUARIAL NOTE HB 530

House Bill 530 HLS 11RS-501 Reengrossed with House Floor Amendment #2596 **Author: Representative Kevin Pearson** **Date: June 15, 2011** **LLA Note HB 530.03 REVISED** **Organizations Affected:** **State Retirement Systems** **RE -$346,000,000 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 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	$0
Revenues	$0

The present value of savings to employers participating in LASERS and higher education employers participating in TRSL is estimated to be about $346 million.

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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Decrease	Decrease	Decrease	Decrease	Decrease
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	See Note	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	0	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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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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.

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%	

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

HB 530 is not specific on how the reduction in unfunded accrued liability will be applied to reduce the balance of the amortization base resulting from the change in liability recognized on June 30, 2009. We assume actuarial savings from HB 530 will be accumulated until the savings are sufficient to fully liquidate the outstanding balance of the 2009 base that resulted primarily from market losses. Employer contribution requirements will not be reduced until this event occurs. The method used to accumulate such savings is summarized below:

1. A new amortization schedule will be established called the HB 530 Schedule. The initial balance of this schedule will be set equal to difference in the unfunded accrued liability as measured with and without regard to HB 530.

2. The initial balance will grow each year by an amount that reflects the decrease in normal costs attributable to HB 530.

3. The initial balance and employer contributions into this account will be credited with interest at 8.25% per year.

4. This account will be accumulated until the balance for LASERS' HB 530 Schedule equals or exceeds the outstanding balance for the LASERS' 2009 Amortization Schedule. When this occurs, both schedules will be liquidated.

5. The balance in the HB 530 Schedule for TRSL will be used to offset the balance in the 2009 Amortization Schedule at the same time that the LASERS' schedules are eliminated.

6. Employer contribution rates will not change due to HB 530 until the 2009 Amortization Base is liquidated.

7. Employer contribution requirements will be reduced thereafter.

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. Reductions n employer contribution requirements will be postponed until the LASERS 2009 amortization schedule can be eliminated.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 530 will reduce actuarial costs associated with LASERS and TRSL. The total liability (past and future) will be reduced $346.0 million.

The unfunded accrued liability will be reduced $257.8 million as a result of HB 530. Employer normal costs will decrease $17.7 million in 2011-12. Each year thereafter, normal cost savings will decrease as pre 2006 members leave LASERS and TRSL and are replaced by new members (benefit provisions for new members are already consistent with the provisions of HB 530 as they apply to pre 2006 members). The present value of all future normal cost reductions is about $88.2 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 Normal Costs for 2011-12:	$ 15.3 million	$ 2.4 million	$ 17.7 million

HB 530 will use the savings associated with the reduction in the UAL and the savings associated with the reduction of the present value of future normal cost to eliminate the 2009 amortization schedule. There will no reduction in the employer contribution rate until accumulated savings attributable to HB 530 are sufficient to liquidate the outstanding 2009 base. This is projected to occur about FY 2024 for LASERS. Therefore, there will be no reduction in employer contribution rates attributable to HB 530 until about FY 2025. Thereafter, significant reductions will occur.

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 not change because employer contribution rates will not change.

2. 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.

3. Expenditures from Federal Funds will not change because employer contribution requirements will not change

Revenues:

- Revenues (Agy Self Generated) will not change because employer contribution requirements will not change.

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The retirement systems report administrative costs 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 less than $100,000.

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

☐ 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