2011 REGULAR SESSION
ACTUARIAL NOTE HB 478

House Bill 478 HLS 11RS-380
Reengrossed with House Appropriations Committee Amendments #3041

Author: Representative Jack Montoucet
Date: June 15, 2011

LLA Note HB 478.03

Organizations Affected:
Louisiana State Employees' Retirement System

RE +$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

<u>Bill Header:</u> RETIREMENT/STATE EMPS: Provides for additional accruals for adult probation and parole officers in the primary component.

<u>Cost Summary:</u>

Actuarial Cost/(Savings) to Retirement Systems and OGB	$7,800,000
Total Five Year Fiscal Cost	
Expenditures	$10,100,000
Revenues	$10,100,000

<u>Estimated Actuarial Impact:</u>

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 **<u>not</u>** include present value costs associated with administrative or other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	**<u>Increase (Decrease) in The Actuarial Present Value</u>**
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.

<u>Estimated Fiscal Impact:</u>

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	3,700,000	1,600,000	1,600,000	1,600,000	1,600,000	10,100,000
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 3,700,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 10,100,000

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	3,700,000	1,600,000	1,600,000	1,600,000	1,600,000	10,100,000
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	$ 3,700,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 10,100,000

2011 REGULAR SESSION
ACTUARIAL NOTE HB 478

Bill Information:

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. As a result of the benefit improvements under HB 478, employer contributions for LASERS will increase. The increase in normal costs and the increase in contributions attributable to the increase in the unfunded accrued liability will be calculated by LASERS and financed from monies in the Adult Probation and Parole Officers Retirement Fund (the Fund).

2. 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 must be amortized over a period of 10 years in accordance with the provisions of Article 10 Section 29(F) of the Louisiana Constitution.

3. Normal costs will be larger for as long as any members of LASERS affected by HB 478 remain actively employed. Normal costs will decrease over time as these members retire.

4. $2,500,000 will be transferred on or before September 30, 2011 from the Adult Probation and Parole Officer Retirement Fund to LASERS. Additional transfers are scheduled to occur on December 31, 2011, March 31, 2012, and June 30, 2012. Each quarterly transfer will be equal to the balance in the fund minus $400,000.

5. Transfers occurring in 2011-12 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.

6. Transfers in 2011-12 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.

7. The remainder of the transfer in 2011-12 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, amounts will be transferred quarterly from the Adult Probation and Parole Officer Retirement Fund to LASERS. The amount that will be transferred each quarter will be equal to the balance in the Fund at the end of each quarter minus $400,000. These amounts will be used to pay for the additional normal costs for that year and the UAL payment due for that year. Any remaining amounts will be used to reduce the UAL.

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 reduced 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.

10. Any over payment from the Fund to LASERS will be accumulated in a separate account within the LASERS trust to be used only for future benefit improvements for Adult Probation and Parole Officers.

HB 478 contains a provision that will require the Fund to pay amounts to the retirement system before satisfying any claims against the Fund from other sources other than those made by the Department of Public Safety and Corrections in accordance with the law.

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.

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

- Note: The increase in the UAL must be fully amortized within 10 years, or by June 30, 2021.

We have concluded the Adult Probation and Parole Officers Retirement Fund (the Fund) will have sufficient monies to satisfy its obligations to LASERS for the cost of the additional benefit provided under HB 478 and LASERS will eventually accumulate surplus assets in a special account reserved for Probation and Parole Officer.

1. There will be sufficient money in the Fund to permit a transfer of $2,500,000 to LASERS on September 30, 2011. The balance in the Fund currently exceeds $3,000,000. At least $400,000 will be deposited into the Fund between July 1, 2011 and September 30, 2011. The Department of Public Safety and Corrections withdrawals from the Fund, as permitted under current law, will not exceed $500,000 between now and September 30. And, HB 478 has been written in such a manner as to prevent the balance in the Fund on June 30 from being swept out of the Fund to be used for other purposes. Therefore, at a minimum, the Fund balance on September 30, 2011 should be at least $2,900,000 – an amount sufficient to transfer $2,500,000 to LASERS and still retain $400,000 in the Fund.

2. Deposits of $400,000 will be made in the second, third and fourth quarters of 2011-12. The balance on December 31, 2011, March 31, 2012 and June 30, 2012 will be equal to $800,000 before any transfer to LASERS and $400,000 after each transfer. Therefore, an additional $1,200,000 will be available in 2011-12 to reduce the UAL created by HB 478.

3. We estimate that the outstanding balance of the UAL on June 30, 2012 to be about $2,200,000.

4. Deposits into the Fund during 2012-13 and each year thereafter are estimated to be about $1,600,000 and that amount transfers to LASERS.. About $400,000 of the amount transferred to LASERS will be used to pay for the normal cost increase for 2012-13. The remainder will be used to reduce the UAL by about $1,200,000.

5. The entire additional UAL created by HB 478 will be fully amortized by June 30, 2014.

6. The transfer needed in 2014-15 for the normal cost is estimated to be about $350,000, well under the estimated $1,600,000 deposit into the Fund and transferred to LASERS for the year. The normal cost will continue to decrease each year thereafter as members of LASERS affected by HB 478 retire. In accordance with HB 478, the remainder of the annual $1,600,000 transfer to LASERS, over and above the normal cost amount, will be accumulated in a special account within LASERS.

In preparing this estimate, 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 $3,700,000 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 $1,600,000 to LASERS beginning in 2012-13 and every year thereafter.

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.

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