2011 REGULAR SESSION
ACTUARIAL NOTE HB 151

House Bill 151 HLS 11RS-295 Enrolled **Author: Representative Frank Hoffmann** **Date: June 21, 2011** **LLA Note HB 151.04** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **EN INCREASE 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/TEACHERS: Relative to Teachers Retirement System of Louisiana (TRSL), allows certain reemployed retirees to receive retirement benefits during reemployment.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	$0 to $250,000 Annual Cost
Total Five Year Fiscal Cost	
Expenditures	Increase
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	$0 to $250,000 Annual Cost
Other Post Retirement Benefits	Increase
Total	$0 to $250,000 Annual Cost

Changes in the unfunded accrued liability of the retirement system resulting from HB 151 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	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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	0	0	0	0	0
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Under current law, reemployed retirees of TRSL are separated into two categories – those who are defined as a Retired Teacher and those defined as an Other Retired Member. A Retired Teacher is defined as:

1. A retiree who returns to active service as a classroom teacher (K through 12) in a critical teacher shortage area. Critical shortage area is defined as any subject area where a shortage of certified teachers has been confirmed by the employer and its governing authorities.

2. A retiree who returns to active service as a full-time certified speech therapist, speech pathologist, or audiologist in a school district where a shortage of such positions exists.

3. A retiree who returns to active service on or before June 30, 2010.

An Other Retired Member is defined as any re-employed retiree other than a Retired Teacher. A reemployed retiree working in higher education is not considered to be a Retired Teacher unless he returned to active employment on or before June 30, 2010.

The following rules pertain to a Retired Teacher:

1. The benefits of any reemployed Retired Teacher who returns to active employment before 12 months have passed since his retirement date shall be suspended while he is reemployed. Such suspension will end upon the earlier of his termination of reemployment or the first anniversary of his retirement.

2. The benefits of any reemployed Retired Teacher reemployed 12 months or more following the date of his retirement will not be suspended.

3. Neither the reemployed Retired Teacher nor his employer shall make contributions to TRSL during any period in which his benefits are suspended.

4. Both the reemployed Retired Teacher and his employer shall make contributions to TRSL during any period in which his benefits are not suspended.

5. A reemployed Retired Teacher will not accrue any benefits during his reemployment.

6. Upon termination of his reemployment a reemployed Retired Teacher may apply for a refund of the contributions (without interest) he made to TRSL during his reemployment.

7. Employer contributions made to TRSL during the reemployment of a reemployed Retired Teacher are not refundable to the employer.

The following rules pertain to a reemployed Other Retired Member.

1. The benefits of any reemployed Other Retired Member who returns to active employment at any time shall be suspended while reemployed.

2. Neither the reemployed Other Retired Member nor his employer shall make contributions to TRSL during his re-employment.

3. A reemployed Other Retired Member will not accrue any benefits during his reemployment.

Proposed Law

Proposed law changes the definition of a Retired Teacher to include any member of TRSL who retired on or after May 1, 2009, and on or before June 30, 2010. Under current law, Retired Teacher was limited to a retired member who had returned to active service on or before June 30, 2010. A reemployed retiree working in higher education who retired on or before June 30, 2010 will be considered a Retired Teacher.

Implications of the Proposed Changes

HB 151 will allow members of TRSL who retired on or after May 1, 2009, and on or before June 30, 2010 to be reemployed without a suspension of benefits. As a result, the pool of teachers, as well as other personnel subject to membership in TRSL, available to serve as substitutes should increase. HB 151 will not have any effect on retirement patterns because these members of TRSL are already retired.

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Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Legislation that allows a member of TRSL to collect a pension and continue to work in a position requiring active membership in the retirement system will have an actuarial cost if such legislation induces such a member to retire earlier than he would have otherwise. By retiring early, TRSL will be required to pay a pension to such a member for a longer period of time and contributions made to the system on the member's behalf will be reduced. This will be offset to a minor extent because the member will forego additional benefit accruals that he would otherwise have earned.

Prior to the enactment of HB 519 which became Act 921 of 2010, a member of TRSL was allowed to retire, return to work, and collect both a pension and a paycheck 12 months after his retirement date. Benefits payable to a reemployed retiree were suspended by TRSL only if the retiree was working during the 12 month period immediately following his date of retirement.

This rule, which became known as the "Two Check Rule", had been in place for about 10 years. Prior to the enactment of the Two Check Rule, there were only about 3,000 retirees in a re-employment status each year. In 2008-09 there were about 7,500 re-employed retirees. Clearly, retirement patterns changed as a result of the Two Check Rule. Many workers elected to retire, returned to work, and then after one year earned a full salary and at the same time collected a full pension.

Act 921 of the 2010 session eliminated the Two Check Rule and essentially made it difficult for a member of TRSL to collect a salary and a pension at the same time. Although the Two Check Rule was preserved under very limited circumstances, it was anticipated that Act 921 would result in members delaying retirement until they were truly ready to leave the school or classroom. The actuarial note for Act 921 estimated annual savings five years after the enactment to be about $108 million. The estimate was based on the additional contributions that would be made to TRSL and the reduction in benefit payments that would be made from the retirement system due to workers postponing retirement.

However, HB 151 does not affect any member's decision to retire; members of TRSL affected by the bill are already retired. Therefore, the estimated savings attributable to Act 921 pertaining to changing retirement patterns of TRSL members will not be compromised by HB 151.

Regardless, HB 151 still has an actuarial cost. The rationale for this cost is given below:

1. Some retirees will experience a life circumstance making it necessary to return to work in order to have more income.

2. Under current law, such a retiree will be considered to be an "Other Retired Member" and his pension benefit will be suspended.

3. Under HB 151, the retiree will be considered to be a "Retired Teacher" and his pension benefit will not be suspended.

4. Under these circumstances, TRSL will pay more in benefits under HB 151 than it will under current law.

The number of retirees reemployed because of adverse life circumstances is not likely to vary much from year to year. However, national economics could cause greater fluctuations in the number of reemployments.

Nevertheless, we estimate that there will be an increase in the actuarial cost and that the cost increase will range from $0 to $250,000 a year. In preparing this estimate, we have assumed the following:

1. Ten retirees will be working each year because they were forced back into employment.

2. The average pension for such retirees will be $25,000 a year.

Other Post Retirement Benefits

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from retiree to employee. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 151.

2. Employer premium expenditures may increase or decrease as a result of HB 151.

Analysis of Fiscal Costs

HB 151 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from Local Funds and General Revenues will increase to the extent that local funds and the MFP for K through 12 will need to be adjusted to accommodate greater retirement plan costs.

2. Expenditures from TRSL (Agy/Self Generated) are estimated to increase $0 to $250,000 a year to pay for benefits to those who would have otherwise had their benefits suspended.

Revenues:

- TRSL revenues (Agy/Self Generated) are expected to increase $0 to $250,000 a year as employer contribution rates are increased to accommodate the estimated increase in annual costs.

The net effect on all Louisiana government will be a $0 to $250,000 increase in annual costs. Such cost increases cannot be separately identified, but rather will be recognized in the aggregate with other actuarial gains and losses subject to 30 year amortization. The cost can neither be precisely determined nor allocated to any particular year of the fiscal measurement period.

TRSL reports that a one-time implementation cost of $21,876 will be incurred in 2011-12 to administer the provisions of HB 151. Additional costs will be incurred annually for ongoing administration. Ongoing administrative costs will depend on the number of retirees who elect to return to employment and for whom earnings must be monitored. The amount of such cost cannot be determined at this time.

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

Although the fiscal cost for any one of the three fiscal years following the 2011 legislative session cannot be measured and the amount is not specified, it is likely that such cost will exceed $100,000 in one or more years during the measurement period. It is probably not likely to exceed $500,000 in any year. The potential increase in expenditures from state general funds is not likely to exceed $100,000 in any year during the measurement period.