2011 REGULAR SESSION
ACTUARIAL NOTE HB 417

House Bill 417 HLS 11RS-54 Reengrossed with House Floor Amendment #1767 and Senate Floor Amendment #3037 **Author: Representative Page Cortez** **Date: June 21, 2011** **LLA Note HB 417.04** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **REF +$67,000,000 SG EX**	**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/TEACHERS: Relative to Teachers' Retirement System of Louisiana (TRSL), allows retirees rehired as substitute teachers to collect retirement benefits during reemployment under certain circumstances.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	More than $270,000,000
Total Five Year Fiscal Cost	
Expenditures	$270,000,000
Revenues	$270,000,000

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	More than $270,000,000
Other Post Retirement Benefits	Increase
Total	More than $270,000,000

Changes in the unfunded accrued liability of the retirement system resulting from HB 417 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	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	67,500,000	67,500,000	67,500,000	67,500,000	270,000,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	$ 67,500,000	$ 67,500,000	$ 67,500,000	$ 67,500,000	$ 270,000,000

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	Increase	67,500,000	67,500,000	67,500,000	67,500,000	270,000,000
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	Increase	$ 67,500,000	$ 67,500,000	$ 67,500,000	$ 67,500,000	$ 270,000,000

<u>Bill Information:</u>

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

The following changes will be made under proposed law:

1. The definition of a Retired Teacher will be changed to include any teacher member of TRSL who returns to work as a “substitute classroom teacher” in K though 12.

2. “Substitute classroom teacher” is defined as a classroom teacher employed in a temporary capacity to fill the position of another classroom teacher who is unavailable to teach for any reason.

3. Retirement benefits payable from TRSL shall be reduced dollar for dollar for any earnings of the substitute teacher in excess of 25% of his TRSL benefit.

4. The definition of a Retired Teacher will be changed to include a person who was in DROP on June 30, 2010 or who was working after exiting DROP on June 30, 2010.

Implications of the Proposed Changes

HB 417 will allow specified retirees of TRSL to return to work as substitute classroom teachers without being subject to a suspension of benefits. As a result, the pool of teachers available to serve as substitutes will be expanded. However, because of the limitations imposed by HB 417, the opportunity for a teacher to retire earlier that he would have otherwise, because he anticipates significant employment after retirement, will be restricted.

HB 417 will also provide an opportunity for about 3,200 teachers in DROP and about 3,600 teachers who are working after DROP to collect two checks, one from their employer and another from TRSL.

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.

There is a cost to HB 417. Under the proposed law, some teachers will base their decision to retire in whole or in part on the fact that they can return to work and supplement their income through substitute teaching employment in K through 12, which is subject to TRSL membership. They can be partially working and fully retired. Without HB 417, some of these same teachers would have remained fully employed without collecting a pension benefit.

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.

HB 417 will eliminate some of the savings estimated for Act 921. If HB 417 is enacted, we assume some workers will elect to retire earlier than they would have otherwise. Without HB 417, a TRSL member may not be able to afford to retire. But with the ability to supplement his or her income from substitute teaching employment, retirement may appear to be affordable. The fundamental question is, "How many teachers will be induced to retire earlier than they would have otherwise and what is the cost associated with that inducement?"

If HB 417 is enacted, the maximum that a career member of TRSL could work after retirement would be 45 days (assuming a 180 day school year and a retiree with 40 years of service and a benefit of 100% x final average compensation). The earnings limitation of HB 417 is quite restrictive. It is unlikely that many members will be induced to retire earlier than they would have otherwise because they can only enhance their retirement income by 25% through substitute employment. However, it cannot be concluded that no members will be enticed to retire early.

It is therefore estimated that there will be an increase in the actuarial cost and that the cost increase on an annual basis will range from $0 to $250,000 a year. In preparing this estimate, we have assumed the following:

1. Zero to ten retirees will be working each fiscal year because they were induced to retire by the post retirement employment opportunity provided by HB 417.

2. The average annual pension for such workers induced to retire early will be $25,000 a year.

The provisions of HB 417 that will allow teachers in DROP on June 30, 2010 and teachers working after DROP on June 30, 2010 to return to work and also collect a pension from TRSL will have a significant cost. HB 417 will encourage a teacher working after DROP to retire immediately and then return to work. After one year, he will be able to collect both his salary and his pension. Without HB 417, the teacher would have continued to work, but would not have collected a pension. Similarly, HB 417 will also encourage a teacher in DROP to retire immediately after exiting DROP and then return to work. One year after exiting DROP, the teacher will be able to collect two checks.

The earliest that a teacher could collect two checks as a result of the provisions of HB 417 would be for the 2012-13 fiscal year. There are about 3,600 teachers working after DROP eligible to retire immediately and begin to receive two checks one year from now. In addition, about 1,000 teachers will be exiting DROP and will also be eligible to collect two checks within a year. Some of these 4,600 teachers will just retire and not return to work. They have reached the end of their working career. But many will take advantage of the two check rule and will retire and continue to work. And they could continue to work for several more years.

We estimate that 2,000 to 3,000 grandfathered teachers will be collecting two checks each year beginning in 2012-13 as a result of HB 417 who would otherwise be working without collecting a pension if HB 417 is not enacted. We also believe that 2,000 to 3,000 grand-fathered teachers will be working in 2013-14. Eventually, the number of grand-fathered teachers willing to work will gradually decrease and eventually no one will be collecting two checks. But in the meantime, TRSL will incur a significant annual cost.

We estimate the annual cost to range from $54 million to $81 million based on the following assumptions:

1. 2,000 to 3,000 grand-fathered teachers will be collecting two checks in 2013-14 through 2015-16. The number of two check teachers will decrease thereafter.

2. The average pension that will be paid to these teachers will be $27,000 per 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 employee to retiree. 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 an active status to a retired status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 417.

2. Employer premium expenditures may increase or decrease as a result of HB 417.

Analysis of Fiscal Costs

HB 417 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 $54 million to $81 million a year to pay benefits to those who would have otherwise not retired. The values in the Fiscal Cot Table on page 1 reflect the midpoint of these two values.

Revenues:

3. TRSL revenues (Agy/Self Generated) are expected to increase $54 million to $81 million a year as employer contribution rates are increased to accommodate the estimated increase in annual costs. The values in the Fiscal Cot Table on page 1 reflect the midpoint of these two values.

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The net effect on all Louisiana government will be a $54 million to $81 million 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 417.

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	[x] 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost
	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change