


2012 REGULAR SESSION
ACTUARIAL NOTE HB 1131

House Bill 1131 HLS 12RS-991 Engrossed Author: Representative J. Kevin Pearson Date: April 17, 2012 LLA Note HB 1131.02 Organizations Affected: Teachers' Retirement System of Louisiana (TRSL) EG 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
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Bill Header: RETIREMENT/TEACHERS: relative to the Teachers' Retirement System of La., provides for calculation of individualized contribution rates.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Increase
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.

	<u>Increase (Decrease) in</u> <u>The Actuarial Present Value</u>
<u>Actuarial Cost (Savings) to:</u>	
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

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	2012-13	2013-14	2014-15	2015-16	2016-2017	5 Year Total
State General Fund	\$ 300,000	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	36,000	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	\$ 336,000	Increase	Increase	Increase	Increase	Increase

REVENUES	2012-13	2013-14	2014-15	2015-16	2016-2017	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

Employer Contribution Rate

Under current law, a single employer contribution rate is calculated and applied to the payrolls of all employers participating in the retirement system. The employer contribution rate is determined according to the following formula:

$$\begin{aligned} \text{Employer Contribution Rate} &= \frac{\text{Employer Normal Cost}}{\text{Total Payroll *Excluding* Pay for Members Participating in ORP}} \\ &+ \frac{\text{Amortization Costs}}{\text{Total Payroll *Including* Pay for Members Participating in ORP}} \end{aligned}$$

Adoption of an Official Valuation Report

R.S. 11:127 of current law provides a procedure for the preparation and adoption or approval of actuarial valuations for the state retirement systems. This procedure is summarized below:

1. The actuary for each retirement system prepares a valuation report in accordance with R.S. 11:102 and actuarial standards of practice. This valuation report is approved by the board of trustees for each state retirement system.
2. The actuary for the Legislative Auditor also prepares a valuation report for each system in accordance with R.S. 11:102 and actuarial standards of practice. This valuation report, which is subject to approval by the Legislative Auditor, serves as an audit of the valuation report prepared by the system actuary.
3. Both the system actuary and the actuary for the Legislative Auditor then present their valuation reports to PRSAC.
4. PRSAC approves a single valuation report, from the two reports presented, to be the Official Valuation Report for each retirement system.
5. The Official Valuation Report, which includes the employer contribution rates as well as information disclosed in the state's Certified Audited Financial Report, is then submitted to the House and Senate committees on retirement and the joint Legislative Committee on the Budget.

Proposed Law

Employer Contribution Rate

HB 1131 establishes five sub plans under TRSL each of which will have a separately calculated Employer Normal Cost Rate. The five sub plans are identified below:

1. Pre K-12 Sub Plan – This sub plan covers all teacher members of TRSL who are employed in Pre K through 12th grade.
2. School Lunch Plan A Sub Plan – This sub plan covers all employees who are paid from school food service funds, who have not elected coverage under Social Security.
3. School Lunch Plan B Sub Plan – This sub plan covers all employees who are paid from school food service funds, who have elected coverage under Social Security.
4. Higher Education Sub Plan – This sub plan includes all teacher members of TRSL employed in higher education, who have not elected to participate in the Optional Retirement Program (ORP).
5. ORP Higher Education Sub Plan – This sub plan includes all teacher members of TRSL employed in higher education, and who have elected to participate in ORP.

HB 1131 also provides for any other specialty retirement plan for a subgroup of system members, yet to be identified.

The Employer Contribution Rate for each sub plan, except the ORP Higher Education Sub Plan, will be calculated in accordance with the following formula.

$$\begin{aligned} \text{Employer Contribution Rate} &= \frac{\text{Employer Normal Cost for the Sub Plan}}{\text{Sub Plan Payroll}} \\ &+ \frac{\text{Amortization Costs}}{\text{Total Payroll *Including* Pay for Members Participating in ORP}} \end{aligned}$$

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The Employer Contribution Rate for the ORP Higher education Sub Plan will be determined in accordance with the formula shown below. This is a benefit increase for members of this sub plan.

Employer Contribution Rate

=

5.8055%

+

Amortization Costs

Total Payroll *Including* Pay for Members Participating in ORP

Adoption of an Official Valuation Report

HB 1131 modifies the procedure for approving valuation information associated with FY 2013. The changes are summarized below:

1. PRSAC will be required to meet as soon as possible after the effective date of HB 1131, should it pass, to adopt a revised valuation for FY 2013 incorporating all changes enacted by the legislature during the 2012 regular session of the legislature.
2. PRSAC will be allowed to adopt a revised actuarial valuation or a revised employer contribution rate prepared by an actuary, who is a member of the American Academy of Actuaries, engaged by the Division of Administration.
3. The Division of Administration will have the right to submit a valuation, or employer contribution rates, to PRSAC for one year only.

Implications of the Proposed Changes

HB 1131 will create five sub plans under TRSL each having its own employer contribution rate.

HB 1131 will also permit the Division of Administration to engage an actuary to prepare for the Division an actuarial valuation or an employer contribution rate for each retirement system.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Employer Contribution Rate

There are no actuarial costs associated with the establishment of the following TRSL sub plans. The sum of the contributions that will be made by employers participating in each sub plan will be the same as the total contribution that would have been made if TRSL had not been divided into the following sub plans.

1. Pre K-12 Sub Plan
2. School Lunch Plan A Sub Plan
3. School Lunch Plan B Sub Plan
4. Higher Education Sub Plan

There is an actuarial cost associated with the establishment of the ORP Higher Education Sub Plan. The Employer Normal Cost Rate for all of TRSL calculated on a combined basis is expected to decrease for the next several years as more and more members become subject to benefit provisions enacted under Act 992 of the 2010 Regular Session. The combined rate for FY 2013 was 5.8055%. This rate will steadily decrease as pre 2011 members leave employment and are replaced by new employees subject to Act 992. However, HB 1131 establishes the Employer Normal Cost Rate for the ORP Higher Education Sub Plan at 5.8055% forever into the future. It is expected that this rate will be higher than what the rate would be if HB 1131 is not enacted, and therefore there is an actuarial cost.

Employer contribution rates under current law for FY 2013 are compared below with rates under HB 1131.

Sub Plan	Employer Normal Cost Rate		Amortization Cost Rate		Total Employer Rate	
	Current Law	HB 1131	Current Law	HB 1131	Current Law	HB 1131
Pre K-12	5.8%	5.8%	18.7%	18.7%	24.5%	24.5%
School Lunch Plan A	5.8%	13.0%	18.7%	18.7%	24.5%	31.7%
School Lunch Plan B	5.8%	7.3%	18.7%	18.7%	24.5%	26.0%
Higher Education	5.8%	5.4%	18.7%	18.7%	24.5%	24.1%
ORP Higher Education	5.8%	5.8%	18.7%	18.7%	24.5%	24.5%

Adoption of an Official Valuation Report

The provisions of HB 1131 allowing a third actuary to be included in the process used to establish the Employer Contribution Rate for FY 2013 may lead to actuarial costs or savings. If the third actuary develops a rate that is too small because he doesn't fully recognize all the issues associated with Louisiana retirement plans, and that rate is adopted by PRSAC, then contribution requirements in the future will have to be larger. On the other hand, if the actuary is too conservative, he may

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develop a contribution rate that is larger than what it needs to be; employers will contribute more than they need to in FY 2013; and future contribution requirements will be reduced.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 1131 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 1131 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase in FY 2013 by about \$300,000 to pay for the third actuary to produce valuation reports for the four state retirement systems.
2. Expenditures from the General Fund will increase in FY 2014 and later years because employer contributions for higher education members participating in ORP will be larger than they would have been without HB 1131.
3. Expenditures by TRSL (Agy Self-Generated) will be \$36,000 larger in FY 2013 because of additional administrative costs necessary to implement HB 1131.
4. Expenditures by TRSL (Agy Self-Generated) will increase in FY 2014 and later years because the System will collect more from higher education employees with members participating in ORP and as a result will transfer more to the ORP vendor.

Revenues:

1. Revenues by TRSL (Agy Self-generated) will increase to the extent that higher education employers with members participating in ORP will contribute larger amounts under HB 1131 than they would have otherwise.

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 necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

☒ 13.5.1 \geq \$100,000 Annual Fiscal Cost

☐ 13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

☐ 6.8(F) \geq \$500,000 Annual Fiscal Cost

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