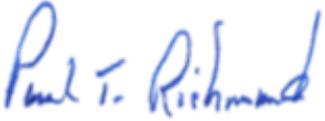


**2012 REGULAR SESSION
ACTUARIAL NOTE SB 13**

<p>Senate Bill 13 SLS 12RS-156 Original</p> <p>Author: Senator Elbert L. Guillory Date: May 11, 2012</p> <p>LLA Note SB 13.01 Revised</p> <p>Organizations Affected: Louisiana State Employees' Retirement System (LASERS) Teachers' Retirement System of Louisiana (TRSL)</p> <p>OR -\$65,900,000 FC GF&LF EX</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">  <p>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</p> </div>
---	---

Bill Header: RETIREMENT SYSTEMS. Provides for the use of entry age normal valuation method by Louisiana State Employees' Retirement System and Teachers' Retirement System of Louisiana. (7/1/12)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$0
Total Five Year Fiscal Cost	
Expenditures	\$(215,600,000)
Revenues	\$(215,600,000)

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.

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

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	\$ 0	\$ (32,900,000)	\$ (28,900,000)	\$ (24,900,000)	\$ (20,900,000)	\$ (107,600,000)
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	(33,000,000)	(29,000,000)	(25,000,000)	(21,000,000)	(108,000,000)
Annual Total	\$ 0	\$ (65,900,000)	\$ (57,900,000)	\$ (49,900,000)	\$ (41,900,000)	\$ (215,600,000)

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	(65,900,000)	(57,900,000)	(49,900,000)	(41,900,000)	(215,600,000)
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	\$ 0	\$ (65,900,000)	\$ (57,900,000)	\$ (49,900,000)	\$ (41,900,000)	\$ (215,600,000)

**2012 REGULAR SESSION
ACTUARIAL NOTE SB 13**

Bill Information:

Current Law

Both the Louisiana State Employees' Retirement System (LASERS) and the Teachers' Retirement System of Louisiana (TRSL) use the Projected Unit Credit (PUC) funding method as a way to budget for a member's benefit over the course of his career. The cost assigned under this method to each year of service is roughly equivalent to the present value of the benefit earned that year. This cost generally increases throughout a member's career, both as a dollar amount and as a percentage of pay.

Proposed Law

Under SB 13, LASERS and TRSL will use the Entry Age Normal (EAN) funding method to budget for a member's benefit. The cost assigned to employers each year under the EAN method is designed to maintain costs as a level percentage of pay throughout a member's career. This change will become effective for the calculation of employer contribution requirements for the fiscal year ending June 30, 2014. *Note: SB 13 becomes effective July 1, 2012. Therefore, we assume the June 30, 2012 valuation that produces actual contribution requirements for FY 2013, will be based on the PUC method, but the estimate of contribution rates for FY 2014 will be based on EAN.*

Implications of the Proposed Changes

The change proposed by SB 13 should help stabilize employer contribution requirements from year to year.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 13 has no effect on the total actuarial present value of future benefits (APV). Nor does the bill have any effect on the amount of contributions that must be made in the future. SB 13 merely re-allocates the APV between the portion that is assigned to the past and the portion assigned to the future. For both LASERS and TRSL, the change in funding method will increase the liability that has been assigned to the past and decrease the liability that is assigned to the future.

According to our analysis, the employer contribution rate will be smaller for FY 2014 under the EAN method for LASERS than it would have been under PUC. For TRSL, the employer contribution rate will be the same regardless of which method is used.

LASERS

	PUC at 8.00%	EAN at 8.00%	Increase/(Decrease)
Accrued Liability	\$ 16,215,300,000	\$ 17,156,600,000	\$ 941,300,000
Total Normal Cost	386,200,000	272,900,000	(113,300,000)
Employer Normal Cost	186,200,000	72,900,000	(113,300,000)
Amortization of Accrued Liability	565,800,000	646,200,000	80,400,000
Employer Contribution Requirements	752,000,000	719,100,000	(32,900,000)
Payroll for Normal Costs	2,549,600,000	2,549,600,000	0
Payroll for Amortization Costs	2,549,600,000	2,549,600,000	0
Employer Normal Cost Rate	7.3027%	2.8580%	(4.4447)%
Employer Amortization Rate	22.1918%	25.3474%	3.1556%
Total Employer Rate	29.5%	28.2%	(1.3)%

TRSL

	PUC At 8.25%	EAN at 8.25%	Increase/(Decrease)
Accrued Liability	\$ 24,942,200,000	26,535,500,000	\$ 1,593,300,000
Total Normal Cost	568,000,000	528,200,000	(39,800,000)
Employer Normal Cost	239,100,000	119,400,000	(119,700,000)
Amortization of Accrued Liability	877,200,000	1,016,400,000	139,200,000
Employer Contribution Requirements	1,116,300,000	1,135,800,000	19,500,000
Payroll for Normal Costs	4,119,000,000	4,119,000,000	0
Payroll for Amortization Costs	4,702,300,000	4,702,300,000	0
Employer Normal Cost Rate	5.8055%	2.8987%	(2.9068)%
Employer Amortization Rate	18.6537%	21.6150%	2.9613%
Total Employer Rate	24.5%	24.5%	0.0%

**2012 REGULAR SESSION
ACTUARIAL NOTE SB 13**

The total amount of change in key cost components, based on our analysis is summarized below:

1. The accrued liability in total will increase \$2,534.6 billion.
2. The employer normal cost will decrease \$233.0 million.
3. Amortization costs will increase \$219.6 million.
4. Employer contribution requirements will decrease \$13.4 million.

However, the actuary for TRSL determined that the employer contribution rate for TRSL will be 0.7% of payroll smaller under the EAN method than under PUC. Although we have slightly different results, our analysis confirms that the analysis performed by the system actuary provides a reasonable estimate of the savings that will result from SB 13. We accept the system actuary's conclusions. Therefore, we estimate that employer contribution requirements with SB 13 will be about \$32.9 million less for LASERS in FY 2014 and about \$33.0 million less for TRSL.

The amount of savings will decline after the first year and eventually, 10 to 15 years from now, employer contribution requirements will be larger than they would have been had SB 13 not been enacted. The estimated amount of savings for the fiscal measurement period is shown below.

Fiscal Year	LASERS	TRSL
2012-13	\$ 0.0 million	\$ 0.0 million
2013-14	32.9 million	33.0 million
2014-15	28.9 million	29.0 million
2015-16	24.9 million	25.0 million
2016-17	20.9 million	21.0 million

The estimate of savings for FY 2013 is quite reliable. Savings estimates for later years are increasing less reliable.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 13 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 13 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will decrease because contribution requirements for employers participating in LASERS will decrease.
2. Expenditures from the General Fund will decrease to the extent that contribution requirements for employers in higher education will decrease. This amount is included in expenditures from Local Funds.
3. Expenditures from Local Funds will decrease to the extent that contribution requirements for employers for pre K-12 will be smaller under the EAN method than under the PUC method.

Revenues:

1. Revenues to LASERS and TRSL (Agy Self-Generated) will decrease because contribution requirements for employers participating in LASERS and TRSL will be reduced.

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 ≥ \$100,000 Annual Fiscal Cost
- 13.5.2 ≥ \$500,000 Annual Tax or Fee Change

House

- 6.8(F) ≥ \$500,000 Annual Fiscal Cost
- 6.8(G) ≥ \$500,000 Annual Tax or Fee Change