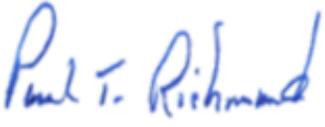


**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

<p>SB 749 SLS 12RS-2590 Reengrossed with Senate Finance Committee Amendment #3845</p> <p>Author: Senator Elbert L. Guillory Date: May 8, 2012</p> <p>LLA Note SB 749.03</p> <p>Organizations Affected: Louisiana State Employees' Retirement System (LASERS) Teachers' Retirement System of Louisiana (TRSL)</p> <p>RE DECREASE APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT BENEFITS. Provides for retirement eligibility for certain state employees. (6/30/12)

Cost Summary:

Actuarial Cost to Retirement Systems and OGB	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
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>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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	Increase	Increase	\$ 0	\$ 0	\$ 0	Increase
Agy Self Generated	Increase	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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

Note: All actuarial and fiscal cost information shown in this actuarial note is based on the assumption that any challenges to the constitutionality of SB 749 will be unsuccessful.

Note: All references to SB 749 in this actuarial note pertain to the Reengrossed version of SB 749 with Senate Finance Committee Amendment #3845.

**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

Actuarial Note Highlights

1. Employees affected by SB 749 may have to work longer to be able to retire.
2. Employer contribution requirements to LASERS and TRSL will not change as a result of SB 749 because the savings will be used to amortize the UAL more rapidly than currently scheduled.
3. Special employer UAL payments will be created for LASERS (about \$5.6 million a year) and for TRSL (about \$5.6 million a year). These payments will be made until the UAL is fully amortized. As a result, the LASERS UAL will be paid off about 3 years ahead of schedule and the TRSL UAL about one year early.
4. Savings to the state may be delayed due to constitutional challenges.

Bill Information:

Current Law

Members of the rank and file sub plan of LASERS must attain the age and service amounts shown below in order to retire.

1. Members first employed on or before June 30, 2006:
 - a. A member may retire at age 60 if he has 10 or more years of service.
 - b. A member may retire at age 55 if he has 25 or more years of service.
 - c. A member may retire at any age if he has 30 or more years of service.
 - d. A member may retire at any age if he has 20 or more years of service, but benefits are actuarially reduced from the earliest age he would have been able to retire with unreduced benefits had he remained in service.
2. Members first employed on or after July 1, 2006:
 - a. A member may retire at age 60 if he has 5 or more years of service.
 - b. A member may retire at any age if he has 20 or more years of service, but benefits are actuarially reduced from the earliest age he would have been able to retire with unreduced benefits had he remained in service.

Members of TRSL who are employed in higher education who have not elected to participate in the Optional Retirement Plan (ORP) must attain the age and service amount shown below in order to retire with unreduced benefits.

1. Members first employed on or before June 30, 1999:
 - a. To be entitled a 2.00% accrual rate:
 - 1) A member may retire at age 60 with 5 years of service
 - 2) A member may retire at any age with 20 or more years of service.
 - b. To be entitled to a 2.50% accrual rate:
 - 1) A member may retire at age 65 if he has 20 or more years of service.
 - 2) A member may retire at age 55 if he has 25 or more years of service.
 - 3) A member may retire at any age if he has 30 or more years of service.
 - 4) A member may retire at any age if he has 20 or more years of service, but benefits are actuarially reduced from the earliest age he would have been able to retire with unreduced benefits had he remained in service.
2. Members first employed on or after July 1, 1999 and before January 1, 2011:
 - a. A member may retire at age 60 if he has 5 or more years of service.
 - b. A member may retire at age 55 if he has 25 or more years of service.
 - c. A member may retire at any age if he has 30 or more years of service.
 - d. A member may retire at any age if he has 20 or more years of service, but benefits are actuarially reduced from the earliest age he would have been able to retire with unreduced benefits had he remained in service.
3. Members first employed on or after January 1, 2011:
 - a. A member may retire at age 60 if he has 5 or more years of service.
 - b. A member may retire at any age if he has 20 or more years of service, but benefits are actuarially reduced from the earliest age he would have been able to retire with unreduced benefits had he remained in service.

Proposed Law

The provisions of SB 749 apply to the following members who retire on or after July 1, 2013:

1. Members of the rank and file sub plan of LASERS.
2. Members of TRSL who are employed in higher education who have not elected to participate in the Optional Retirement Plan (ORP).

**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

The provisions of SB 749 will not apply to the following members of LASERS and TRSL:

1. A member born on or before June 30, 1958.
2. A member who has at least 20 years of service on June 30, 2013.
3. A member who separates from service on or before June 30, 2013.
4. A member who is an elected judge.
5. A member of a hazardous duty sub plan.

LASERS

A member of LASERS, affected by SB 749, first employed on or before June 30, 2013 will be able to retire with an unreduced benefit at any age with 30 or more years of service **OR** at the age specified below in accordance with his years of service on June 30, 2013. In no event will a member be allowed to retire with an unreduced benefit earlier than he would have been able to under current law.

Age	Service on June 30, 2013 + Air Time*
55	At least 15 years but less than 20
57	At least 10 years but less than 15
60	At least 5 years but less than 10
65	Fewer than 5 years

* Air Time includes any air time service purchased on or before June 30, 2015. Current law already contains provisions allowing LASERS members to purchase of Air Time.

An affected member will be able to retire when he attains the age and service requirements of current law, but his benefit will be actuarially reduced from age 67 or the age specified in the above table.

A member of LASERS, affected by SB 749, first employed on or after July 1, 2013 will be able to retire with an unreduced benefit at age 67 if he has 5 or more years of service **OR** with 20 years of service with an actuarially reduced benefit.

TRSL

A member of TRSL, affected by SB 749, first employed on or before June 30, 2013 will be able to retire with an unreduced benefit at any age with 30 or more years of service **OR** at the age specified below in accordance with his years of service on June 30, 2013. In no event will a member be allowed to retire with an unreduced benefit earlier than he would have been able to under current law.

Age	Service on June 30, 2013 + Air Time*
59	At least 15 years but less than 20
61	At least 10 years but less than 15
63	At least 5 years but less than 10
65	Fewer than 5 years

* Air Time includes any air time service purchased on or before June 30, 2015. SB 749 will allow TRSL members to purchase of Air Time.

An affected member will be able to retire when he attains the age and service requirements of current law, but his benefit will be actuarially reduced from age 67 or the age specified in the above table.

A member of TRSL, affected by SB 749, first employed on or after July 1, 2013 will be able to retire with an unreduced benefit at age 67 if he has 5 or more years of service **OR** with 20 years of service with an actuarially reduced benefit.

Use of Savings to Reduce the UAL

SB 749 will apply the savings that result of the benefit provisions of the bill to reduce the unfunded accrued liability. The savings will be determined and applied in the following manner.

1. The June 30, 2013 actuarial valuations for LASERS and TRSL will be prepared twice. The June 30, 2013 valuation will establish an actual employer contribution rate for FY 2013 without recognition of SB 749 and an actual employer contribution rate for FY 2013 with recognition of SB 749.
2. A special UAL rate will be established that is equal to the difference between the actual employer contribution rates for FY 2013 as measured with and without SB 749.
3. The special UAL rate, which will be paid by the employer, will be charged annually beginning with FY 2014. The charge will be first applied against the Original Amortization Base, next against the Experience Account Amortization Base, and finally against any other bases until the UAL is completely amortized.

**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

4. Payment schedules for all current amortization bases will remain as is and will not be changed because of the more rapid amortization of the UAL.

Implications of the Proposed Changes

Some rank and file members of LASERS, particularly those who are less than age 55 on July 1, 2013, or who have less than 20 years of service on that date, may have to delay their retirement in order to receive unreduced retirement benefits. Members of TRSL employed in higher education who have not elected to participate in ORP and who are less than age 55 on July 1, 2013 or who have less than 20 years of service on that date may have to delay their retirement in order to receive unreduced retirement benefits. Unless the courts find SB 749 to be unconstitutional, the benefit changes will reduce future normal costs, the unfunded accrued liability of the retirement systems, and future employer contributions toward the UAL. However, SB 749 will capture these savings by establishing a special employer UAL rate equal to the difference in employer rates with and without SB 749.

Cost Analysis:

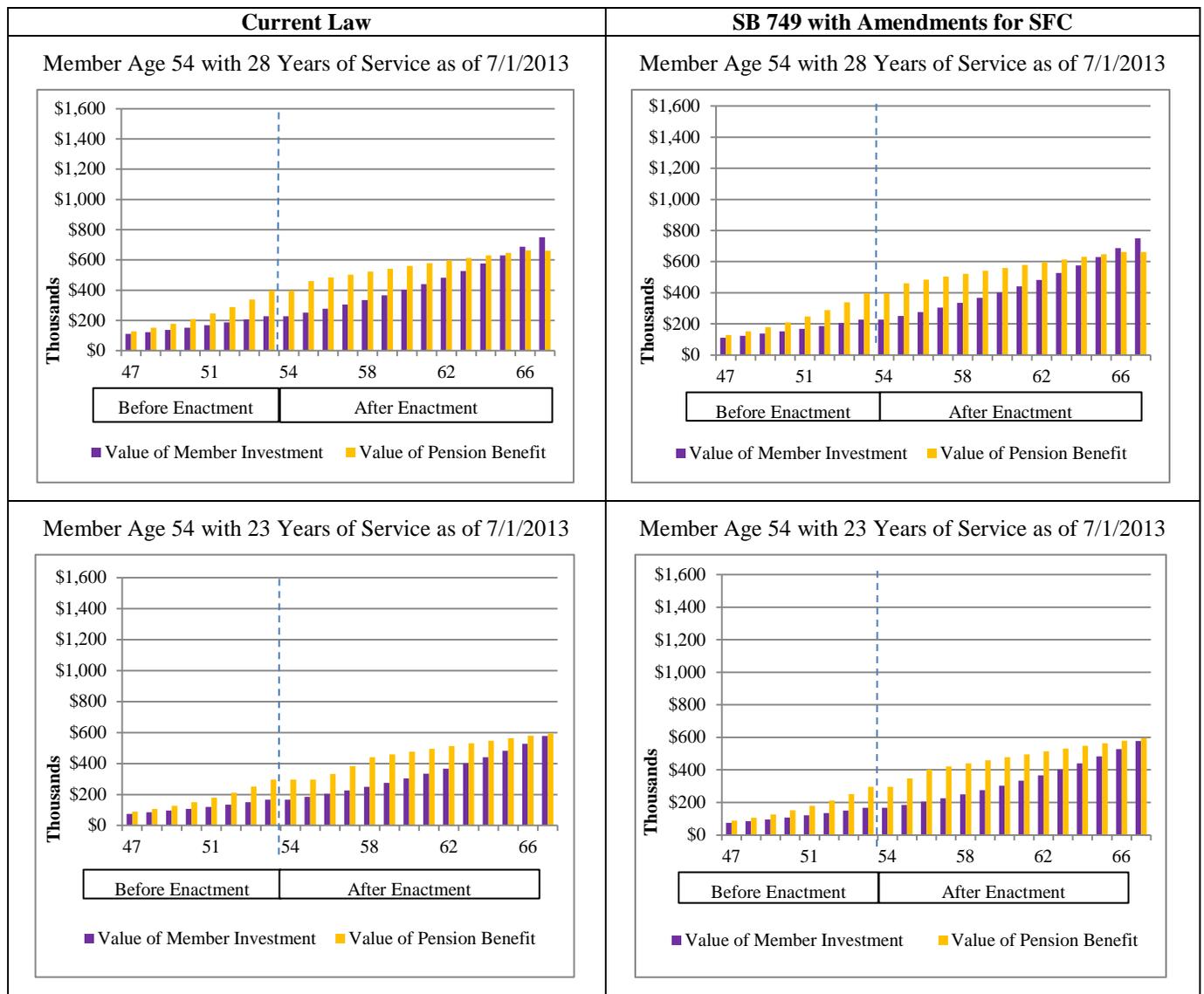
Analysis of Actuarial Costs

Retirement Systems

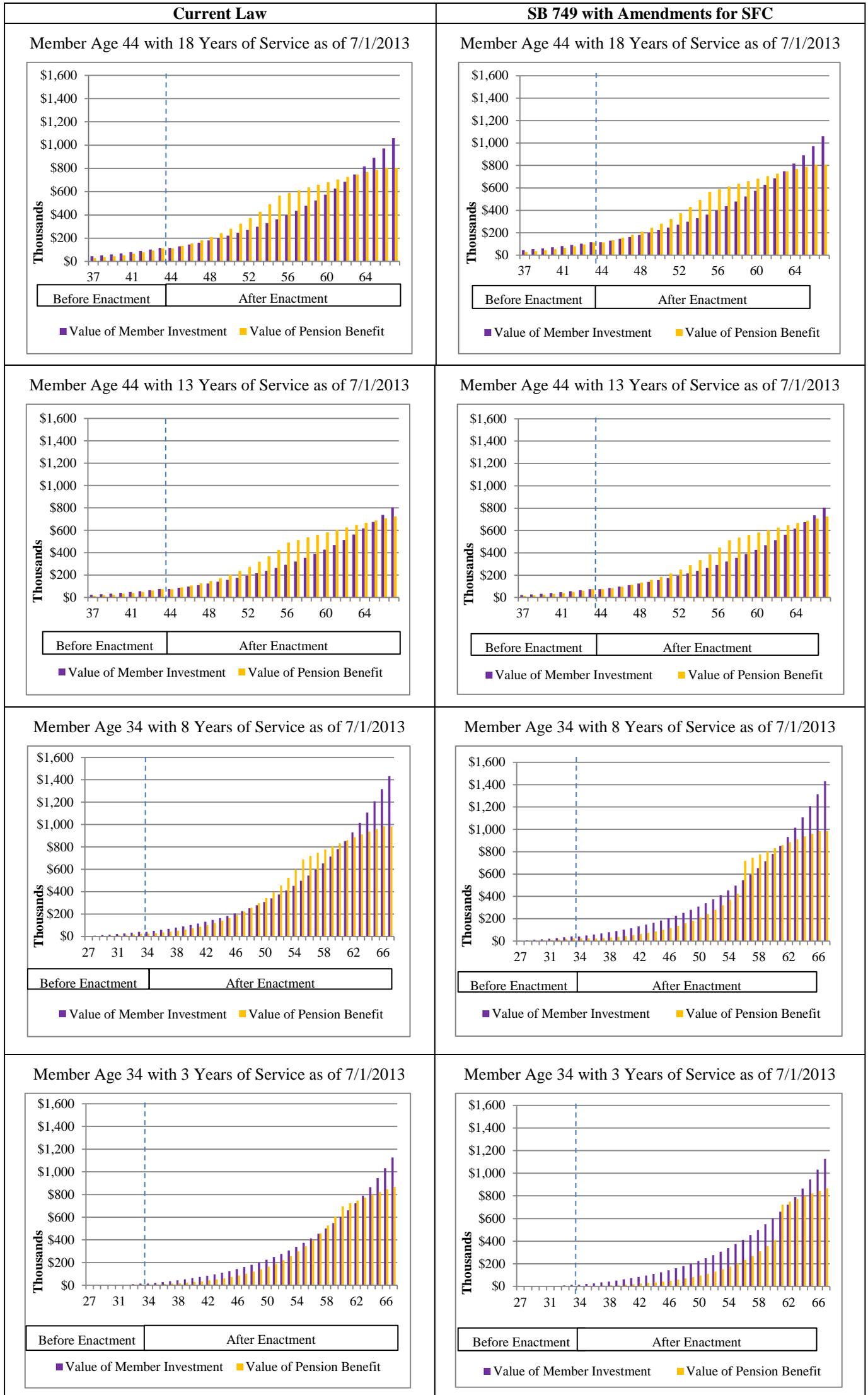
Effect of SB 749 on Members

As they work, employees earn three forms of compensation – salary, deferred income in the form of pensions, and other benefits such as health insurance. Part of the deferred income earned by a member is the contributions he has made to the retirement system. The other part is the amount earned by the member from employer contributions. SB 749 may reduce the amount of deferred compensation that a member has earned to date and may reduce the deferred compensation he will earn in the future.

The value of total deferred compensation that a member has already earned and will earn in the future (gold bars) is compared below with the value of the member’s own contributions with interest (blue bars). Each bar in each graph reflects the amount of value the member is entitled to receive should he terminate employment at that moment in time. These comparisons are made under current law (left column) and under SB 749 (right column).



**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**



**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

The following conclusions can be drawn from these charts.

1. SB 749 will have no effect on the unreduced retirement date for a member who is 54 years old with 28 years of service on July 1, 2013. The deferred compensation that the member has earned to date and the deferred compensation that he will earn in the future will not change.
2. Similarly, SB 749 will have no effect on a member who is 54 years old with 23 years of service on July 1, 2013.
3. Similarly, SB 749 will have no effect on a member who is 44 years old with 18 years of service on July 1, 2013.
4. SB 749 will affect the deferred compensation earned to date and to be earned in the future for a member who is 44 years old with 13 years of service. Such a member would have been able to retire at age 56 with unreduced benefits under current law. He will have to wait until age 57 under proposed law.
5. A member who is age 34 with 8 years of service on July 1, 2013 will be able to retire with unreduced benefits at age 55 under current law. He will not be able to retire under propose law until age 56. However, if he elects to retire at age 55, his benefit will be actuarially reduced from age 60. Therefore, SB 749 will impose a significant penalty should the member elect to retire one year earlier than his earliest unreduced retirement age.
6. A member who is age 34 with 3 years of service on July 1, 2013 will be able to retire with unreduced benefits at age 60 under current law. He will not be able to retire under propose law until age 61. However, if he elects to retire at age 60, his benefit will be actuarially reduced from age 65. Therefore, SB 749 will impose a significant penalty should the member elect to retire one year earlier than his earliest unreduced retirement age.

SB 749 will have the following effect on the various measures of actuarial cost.

LASERS

	Before Change	After Change	Increase/(Decrease)
Accrued Liability	\$ 15,862,100,000	\$ 15,845,700,000	\$ (16,400,000)
Total Normal Cost	372,900,000	368,700,000	(4,200,000)
Employer Normal Cost	172,900,000	168,700,000	(4,200,000)
Amortization of Accrued Liability	545,900,000	544,500,000	(1,400,000)
Employer Contribution Requirements	718,800,000	713,200,000	(5,600,000)
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	6.7827%	6.6183%	(0.1644)%
Employer Amortization Rate	21.4130%	21.3570%	(0.0560)%
Total Employer Rate	28.2%	28.0%	(0.2)%

TRSL

	Before Change	After Change	Increase/(Decrease)
Accrued Liability	\$ 24,942,200,000	\$ 24,917,300,000	\$ (24,900,000)
Total Normal Cost	568,000,000	564,600,000	(3,400,000)
Employer Normal Cost	239,100,000	235,700,000	(3,400,000)
Amortization of Accrued Liability	877,200,000	875,000,000	(2,200,000)
Employer Contribution Requirements	1,116,300,000	1,110,700,000	(5,600,000)
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%	5.7229%	(0.0826)%
Employer Amortization Rate	18.6537%	18.6074%	(0.0463)%
Total Employer Rate	24.5%	24.3%	(0.2)%

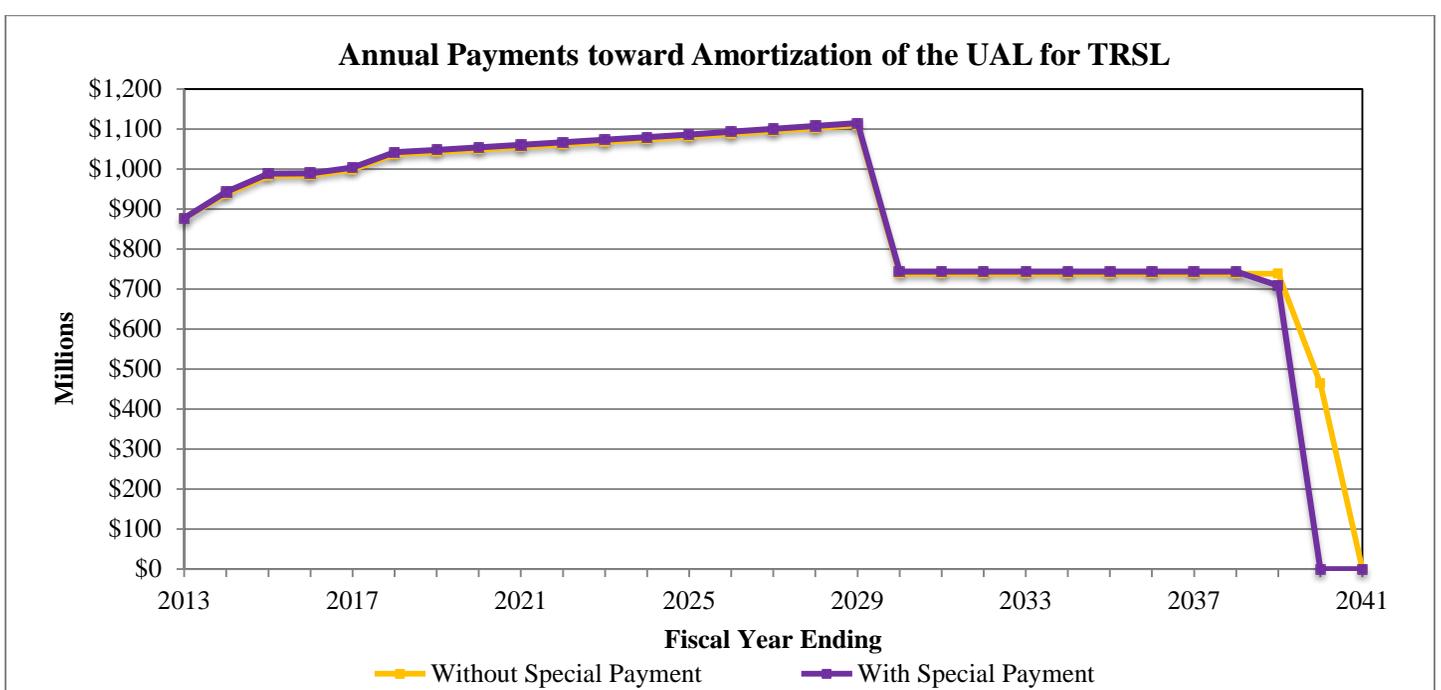
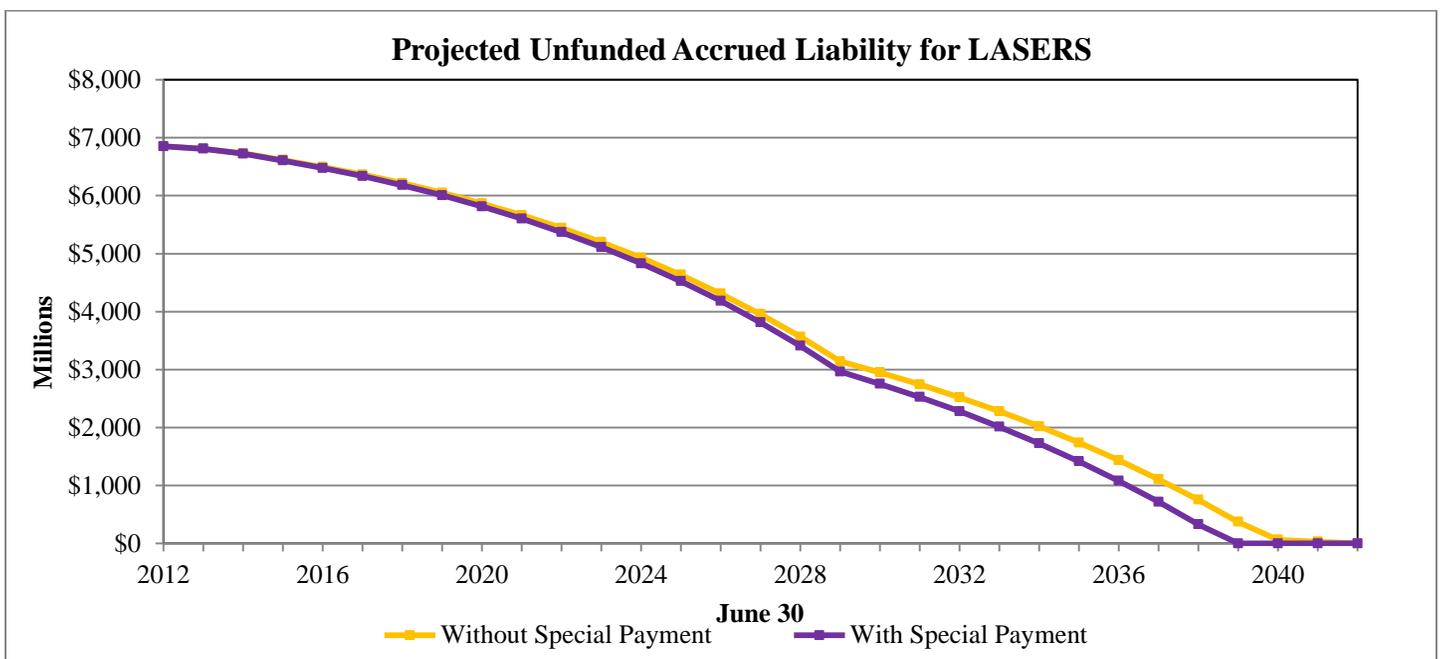
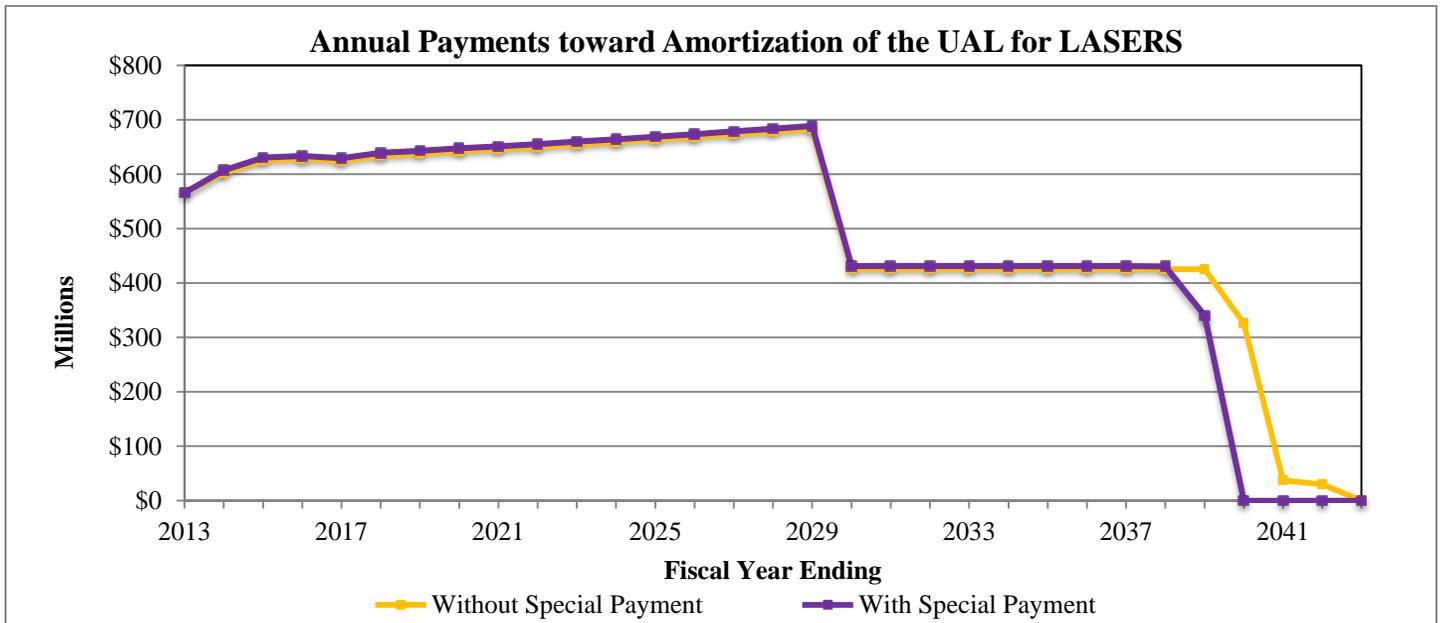
Total savings from SB 749 for LASERS and TRSL combined are summarized below:

1. The accrued liability in total will decrease \$41.3 million.
2. Employer normal costs will decrease \$7.6 million.
3. Amortization costs will decrease \$3.6 million.
4. Employer contribution requirements will decrease \$11.2 million.

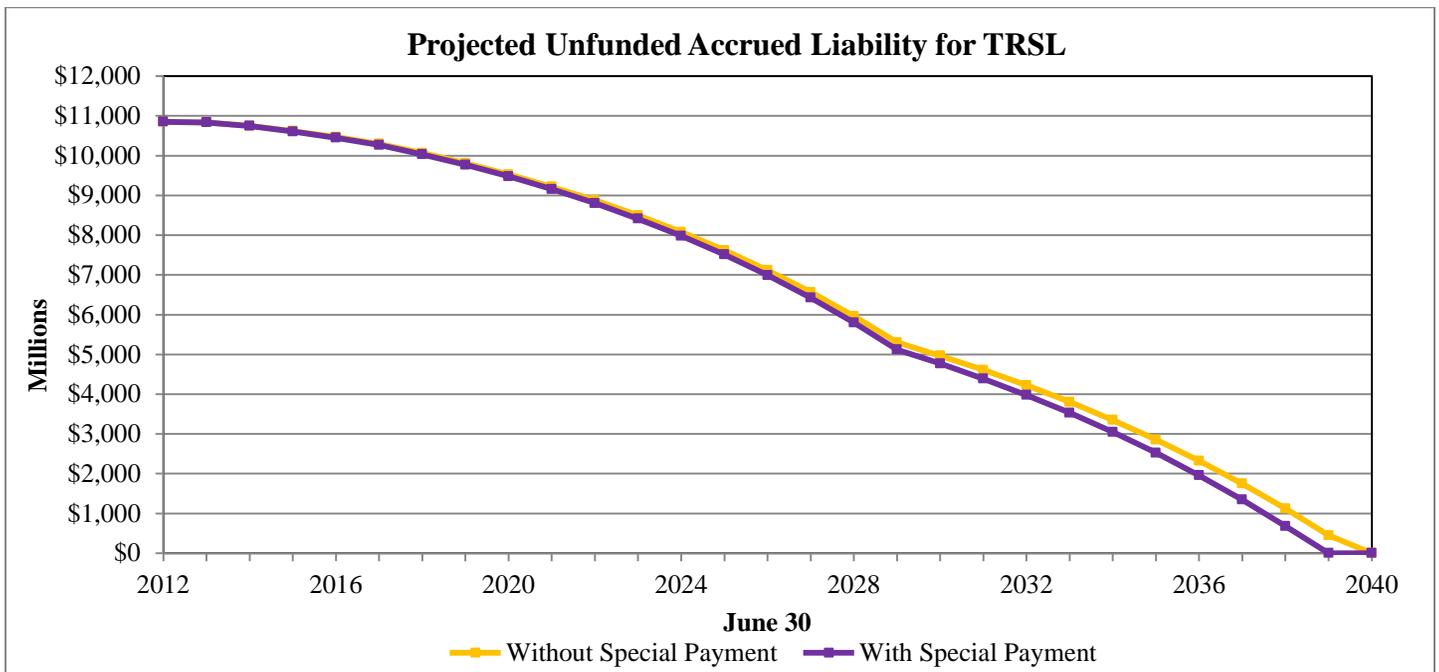
There may be a small exodus of personnel anticipating the implementation of SB 749 on July 1, 2013. However, because the increase in retirement ages is not too severe, and because of the right to purchase air time, the number of people who leave will be small and the exodus, if any, will be spread out over a two year period.

**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

Under SB 749, these savings will be applied to the special employer UAL contribution will be used to reduce the UAL for LASERS and TRSL. As shown in the graphs below, the UAL for LASERS will be fully amortized by June 30, 2039, 3 years earlier than currently scheduled. For TRSL, full amortization of the UAL will occur one year early.



**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**



Realization of these savings may be delayed or may never occur. It is possible that the constitutionality of SB 749 will be challenged in state or federal courts. According to a memorandum issued by Strasburger, Attorneys at Law to the Office of the Louisiana Legislative Auditor on March 26, 2012, entitled Legal Analysis of 2012 Pension Bills (see www.la.gov/reports_data/actuaryreports) challenges would likely allege violations under:

1. Article X, §29 of the Louisiana Constitution which protects public pension benefits,
2. The Contract Clause within both the Louisiana and U.S. Constitutions claiming contract impairment due to diminished benefits,
3. The Takings Clause of both the Louisiana and U.S. Constitutions for divesting public employee benefits without just compensation,
4. The Due Process Clauses of both the Louisiana and U.S. Constitution and the Fifth Amendment to the U.S. Constitution for depriving employees of property rights without due process, and
5. 42 U.S.C. §1983 against public officials for enforcing unconstitutional laws.

Nevertheless, a determination by the courts on the constitutionality of SB 749 should only have a small impact on actuarial funding for LASERS and TRSL, regardless of the decision. If SB 749 is declared constitutional, nothing changes. If it is declared unconstitutional, then employee benefit rights will be restored. And, because employer contribution requirements have not been reduced, the retirement systems should be able to restore benefit rights, restore UAL balances to their originally scheduled amounts, and resume actuarial funding as if SB 749 had never been enacted.

Other Post Retirement Benefits

SB 749 should reduce actuarial costs associated with post-retirement benefits other than pensions. Members will in all likelihood retire later than they would have otherwise and, as a result, the liability associated with post-retirement benefits will decrease.

Analysis of Fiscal Costs

The effects of SB 749 on fiscal costs are given below assuming the constitutionality of SB 749 will be upheld should it be challenged.

Expenditures:

1. Expenditures from state General Funds will not change because employer contribution requirements will remain the same as they would have been had SB 749 not been enacted.
2. Expenditures from the General Fund will increase to the extent that the state will be required to defend the legal challenges that may be brought to the courts. Additional litigation costs that may be incurred by various government entities relative to SB 749 have been estimated to range from \$750,000 to \$3,000,000.
3. Expenditures from LASERS and TRSL (Agy Self-Generated) will decrease to the extent that payments to retirees will be lower because members will be unable to retire when they had originally planned.
4. Expenditures by LASERS and TRSL (Agy Self-Generated) will increase because of implementation costs which are estimated to be about \$110,000 in FY 2013.

**2012 REGULAR SESSION
ACTUARIAL NOTE REENGROSSED SB 749**

Revenues:

1. LASERS and TRSL revenues (Agy Self-Generated) will increase to the extent that members purchase air time. Otherwise revenues will not change because employer contributions will not change.

The effect of Substitute SB 749 on actuarial and fiscal savings may change from the amounts shown above based on the following:

1. The constitutionality of SB 749 may be litigated.
2. The potential success of such litigation is unknown, but reasonable grounds have been established.
3. It may take several years for the legal challenges to work through the court system.

The outcome of such litigation may take one of the following forms:

1. SB 749 is challenged in the courts and an injunction is given delaying implementation of the provisions of the bill.
2. SB 749 is litigated and is declared unconstitutional.
3. SB 749 is litigated and is declared constitutional.

If any outcome except that last occurs, actuarial and fiscal savings may be delayed or may never materialize.

Actuarial Caveat

Actuarial analyses contained in this actuarial note are based on the 8.25% discount rate assumption used by LASERS in the preparation of valuation results as of June 20, 2011 and contribution requirements for FY 2012. Although PRSAC recently adopted a valuation report based on an 8.00% discount rate for estimating contribution requirements for FY 2013, we are continuing to use the 8.25% rate because we started our analysis before the change was approved.

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