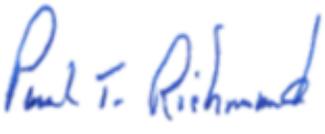


**2012 REGULAR SESSION  
ACTUARIAL NOTE SB 52**

<p><b>Senate Bill 52 SLS 12RS-125</b> Reengrossed with Senate Finance Committee Amendment #3826</p> <p><b>Author: Senator Elbert L Guillory</b> <b>Date: May 8, 2012</b></p> <p><b>LLA Note SB 52.03</b></p> <p><b>Organizations Affected:</b> Louisiana State Employees' Retirement System (LASERS) Teachers' Retirement System of Louisiana (TRSL)</p> <p><b>RE NO IMPACT APV</b></p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT SYSTEMS: Increases the employee contribution rate for certain members of state retirement systems (7/1/12).

**Cost Summary:**

Actuarial Cost to Retirement Systems and OGB	\$0
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.

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

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.

<b>EXPENDITURES</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>5 Year Total</b>
State General Fund	Increase	Increase	\$ 0	\$ 0	\$ 0	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<b>REVENUES</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>5 Year Total</b>
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

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 52 will be unsuccessful.

Note: All references to SB 52 in this actuarial note pertain to the Reengrossed version of SB 52 with Senate Finance Committee Amendment #3826.

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ACTUARIAL NOTE SB 52**

**Actuarial Note Highlights**

1. Beginning July 1, 2013, employees will be required to contribute 0.5% of pay more under SB 52 than they currently contribute. The employee rate will increase another 0.5% on July 1, 2014, another 0.5% on July 1, 2015, and yet another 0.5% on July 1, 2016. Employee contributions to LASERS after July 1, 2016 will be \$45.2 million larger than they are currently and employee contributions for TRSL will be \$9.0 million larger.
2. Members who are just beginning their career will receive less from the retirement plan than what they would have received had they invested their own contributions.
3. Employer contributions to LASERS and TRSL will not change.
4. The UAL will be paid off 8 years earlier than originally scheduled for LASERS and one year sooner for TRSL.
5. Savings or costs to the state may be delayed due to constitutional challenges.

**Bill Information:**

**Current Law**

Under current law, active members of the Louisiana State Employees' Retirement System (LASERS) and members of the Teachers' Retirement System of Louisiana (TRSL) contribute various percentages of their salary to the retirement system.

**Proposed Law**

SB 52 changes employee contribution rates for members of LASERS in the following manner:

<b>Member Category</b>	<b>Current Law</b>	<b>SB 52</b>
Judges and court officers who joined LASERS before January 1, 2012	11.5%	No Change
The governor, lieutenant governor, and legislators who joined LASERS before January 1, 2011.	11.5%	12.0% on 7/1/13 12.5% on 7/1/14 13.0% on 7/1/15 13.5% on 7/1/15
Judges who join LASERS on or after January 1, 2011	13.0%	No Change
Court officers, the governor, the lieutenant governor, and legislators who join LASERS on or after January 1, 2011	8.0%	8.5% on 7/1/13 9.0% on 7/1/14 9.5% on 7/1/15 10.0% on 7/1/16
Clerk and sergeant at arms of the House of Representatives and the Secretary and sergeant at arms of the Senate who joined LASERS: Before January 1, 2011:	9.5%	10.0% on 7/1/13 10.5% on 7/1/14 11.0% on 7/1/15 11.5% on 7/1/16
On or after January 1, 2011:	8.0%	8.5% on 7/1/13 9.0% on 7/1/14 9.5% on 7/1/15 10.0% on 7/1/16

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<b>Member Category</b>	<b>Current Law</b>	<b>SB 52</b>
All other employees, except for Public Safety employees, Wildlife Agents, Bridge Police, and members of the Hazardous Duty Services Plan, who joined LASERS: Before July 1, 2006:  On or after July 1, 2006:	7.5%  8.0%	8.0% on 7/1/13 8.5% on 7/1/14 9.0% on 7/1/15 9.5% on 7/1/16  8.5% on 7/1/13 9.0% on 7/1/14 9.5% on 7/1/15 10.0% on 7/1/16
Members of TRSL who are employees of an institution of postsecondary education, the Board of Regents, or a postsecondary education management board unless such members have elected to participate in the Optional Retirement Plan (ORP)	8.0%	8.5% on 7/1/13 9.0% on 7/1/14 9.5% on 7/1/15 10.0% on 7/1/16

SB 52 provides remedial language specifying that members of the LASERS ORP will be required to contribute 7.5% of pay.

Additional contributions received from employees as a result of SB 52, net of the present value of future refunds to employees, will be used to reduce the outstanding balances of the UALs for LASERS and TRSL respectively. The current schedule of amortization payments will not be recalculated annually to reflect reduced principal amounts. Once UAL balances reach \$0, however, the additional employee contributions will be used to reduce employer contribution requirements.

**Implications of the Proposed Changes**

All state employees who are members of LASERS except judges and those employed in positions that provide for participation in one of the hazardous duty sub plans, and all members of TRSL who are employed in higher education except those participating in ORP, will eventually contribute 2.0% more of their pay to LASERS and TRSL than they do currently. These contributions, net of refunds, will be used initially to reduce the UALs for LASERS and TRSL. Once the UALs are fully amortized, the additional contributions will be used to reduce requirements that would otherwise be paid by the state.

**Cost Analysis:**

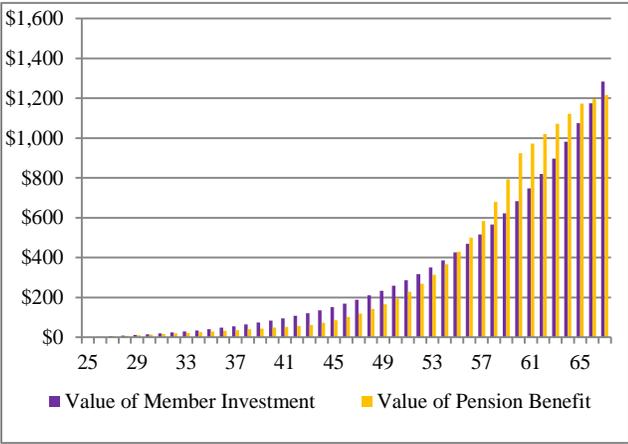
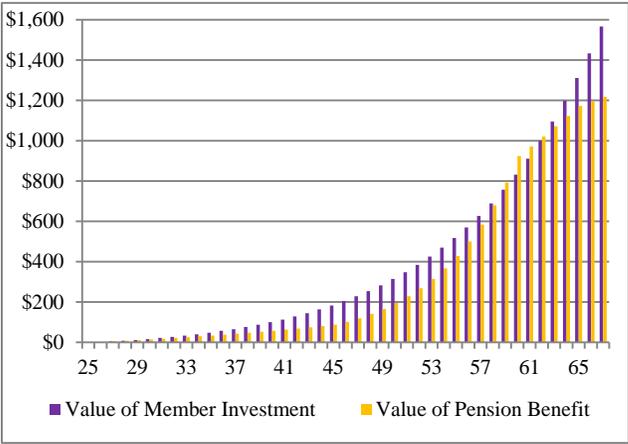
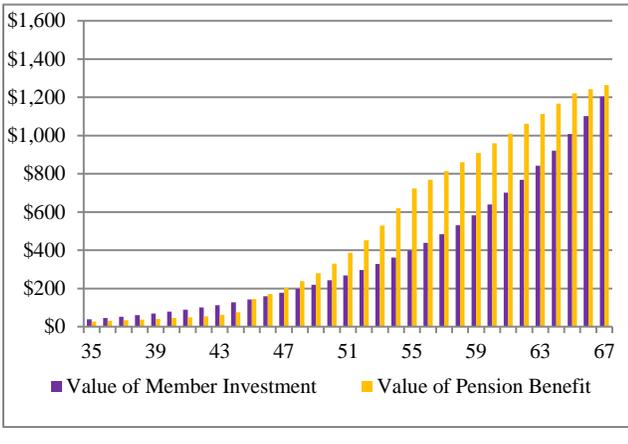
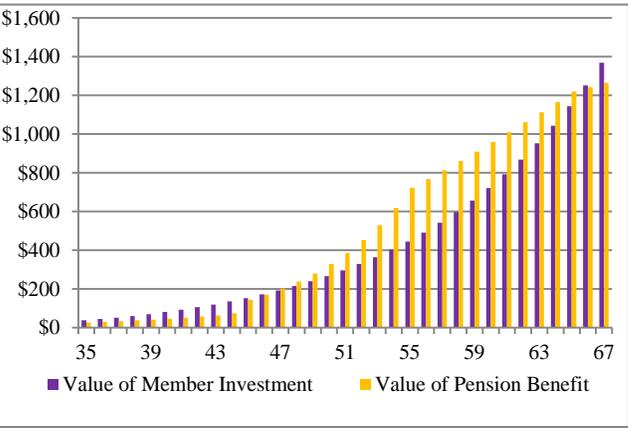
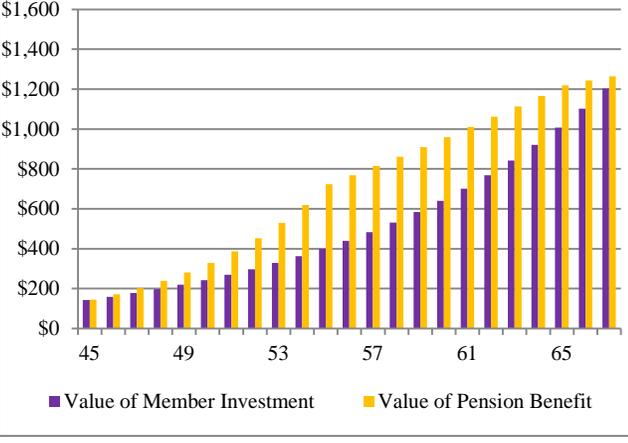
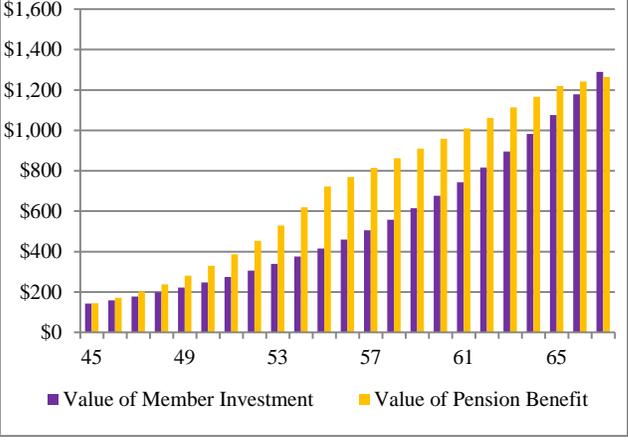
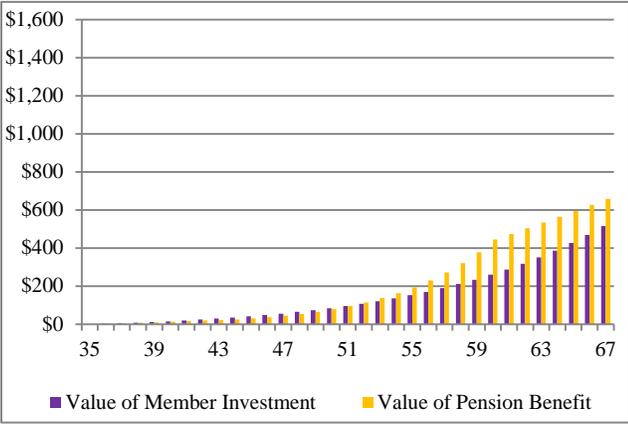
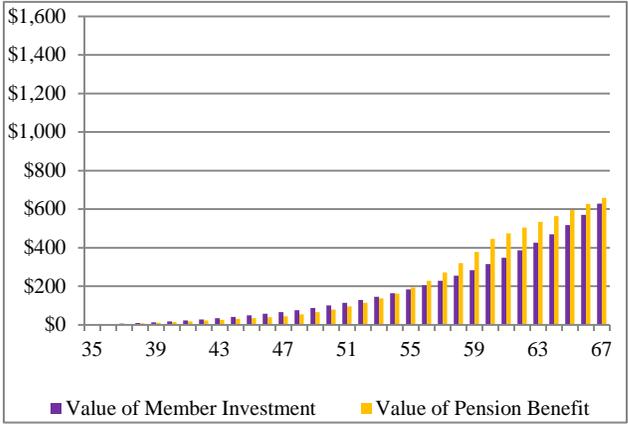
**Analysis of Actuarial Costs**

**Retirement Systems**

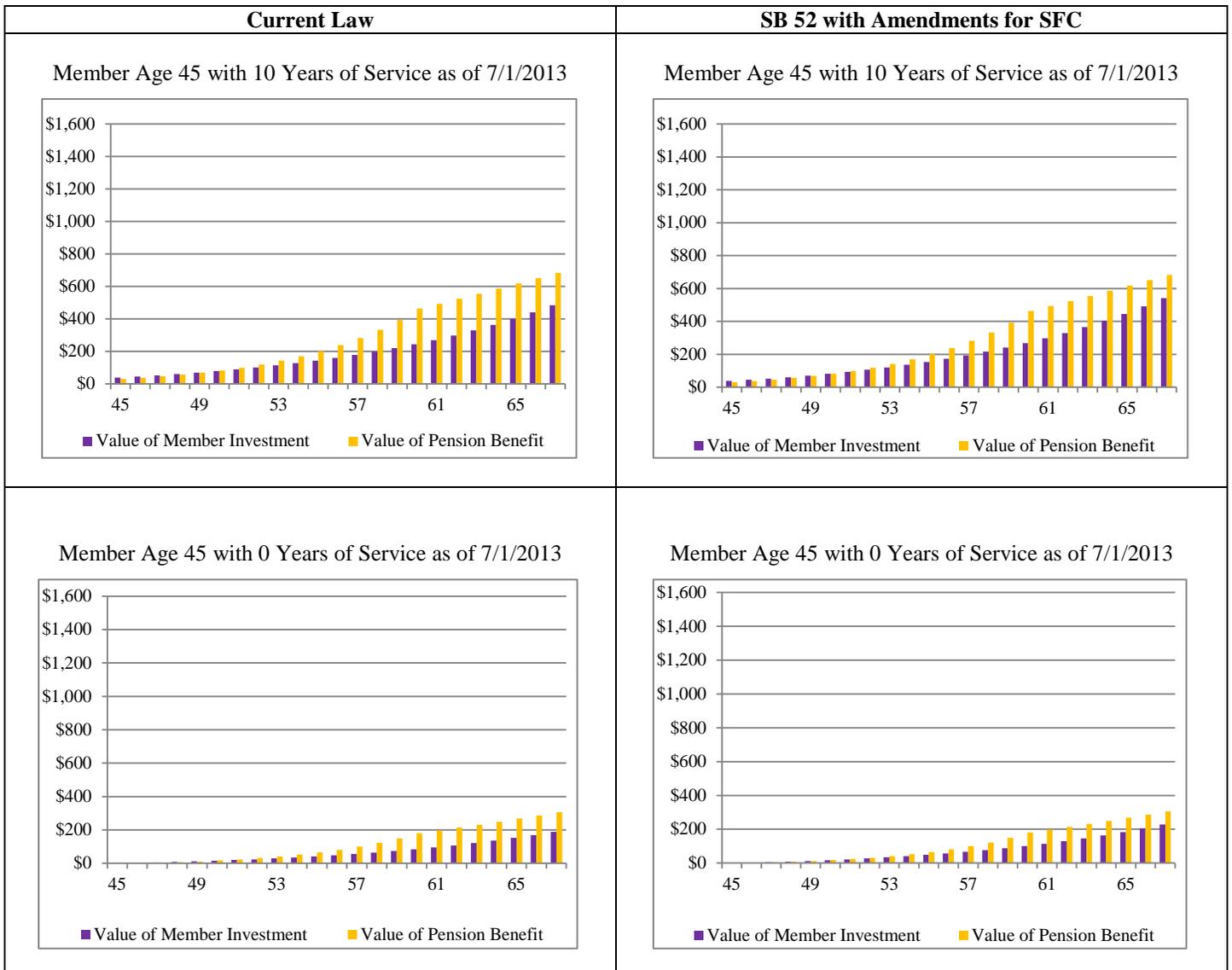
*Effect of SB 52 on Members*

The value of the benefit a member will earn from his own contributions accumulated with interest is compared below to the value of the pension benefit the members earns from the retirement system. Purple bars reflect the member's investment; gold bars reflect the value of the pension benefit. Two comparisons are made for each member situation – one comparison under current law and the other under the provisions of SB 52. Although each example is based on a member who is earning \$30,000 a year, the comparisons will be similar regardless of income level.

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Current Law	Senate Bill 52 with Amendment for SFC
<p align="center">Member Age 25 with 0 Years of Service as of 7/1/2013</p> 	<p align="center">Member Age 25 with 0 Years of Service as of 7/1/2013</p> 
<p align="center">Member Age 35 with 10 Years of Service as of 7/1/2013</p> 	<p align="center">Member Age 35 with 10 Years of Service as of 7/1/2013</p> 
<p align="center">Member Age 45 with 20 Years of Service as of 7/1/2013</p> 	<p align="center">Member Age 45 with 20 Years of Service as of 7/1/2013</p> 
<p align="center">Member Age 35 with 0 Years of Service as of 7/1/2013</p> 	<p align="center">Member Age 35 with 0 Years of Service as of 7/1/2013</p> 

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The following conclusions can be drawn from these exhibits.

1. Under current law (the left column of charts), a member is always projected to receive a benefit during the core retirement ages that is greater than his employee contributions accumulated with interest. In other words, a portion of his pension is based on his own contributions and a portion is based on employer contributions.
2. Under SB 52 (the right column of charts), a member recently hired at age 25 will fund his entire pension benefit. Only at ages 59 to 62 will he receive a pension that has about the same value as his own contributions.
3. A member who is now 35 years old, who was hired 10 years ago, has some expectation of a pension supported by employer contributions under current law. His own contributions with interest provides about 67% of the total benefit during the core retirement ages. But, if he waits until age 67 to retire, he funds almost the entire pension.
4. Under SB 52, the expectations of the 35 year old with 10 years of service are reduced. The pension benefit is the same, but he ends up funding about 75% to 80% of the total. And if he waits until age 66 or later to retire, he receives no benefit from employer funding.
5. Similar conclusions can be drawn for a member currently age 45 with 20 years of service.
6. A newly hired member at age 35 will fund about 75% of his pension under current law. Under SB 52, he will fund about 85% to 90% of his benefit.
7. The following general conclusion can be made: a member under current law provides the funding for a significant portion of his pension benefit during the core retirement ages. A 2% increase in contributions will result in some members paying more for their pensions than what their pensions are worth.

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*Effect of SB 52 on Actuarial Costs*

SB 52 will have the following effect on the various measures of actuarial cost.

**LASERS**

	<b>Before Change</b>	<b>After Change</b>	<b>Increase/(Decrease)</b>
Accrued Liability	\$ 15,862,100,000	\$ 15,862,100,000	\$ 0
Total Normal Cost	372,900,000	418,100,000	45,200,000
Employer Normal Cost	172,900,000	172,900,000	0
Amortization of Accrued Liability	546,000,000	546,000,000	0
Employer Contribution Requirements	718,900,000	718,900,000	0
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%	6.7827%	0.0000%
Employer Amortization Rate	21.4130%	21.4130%	0.0000%
Total Employer Rate	28.2%	28.2%	0.0%

**TRSL**

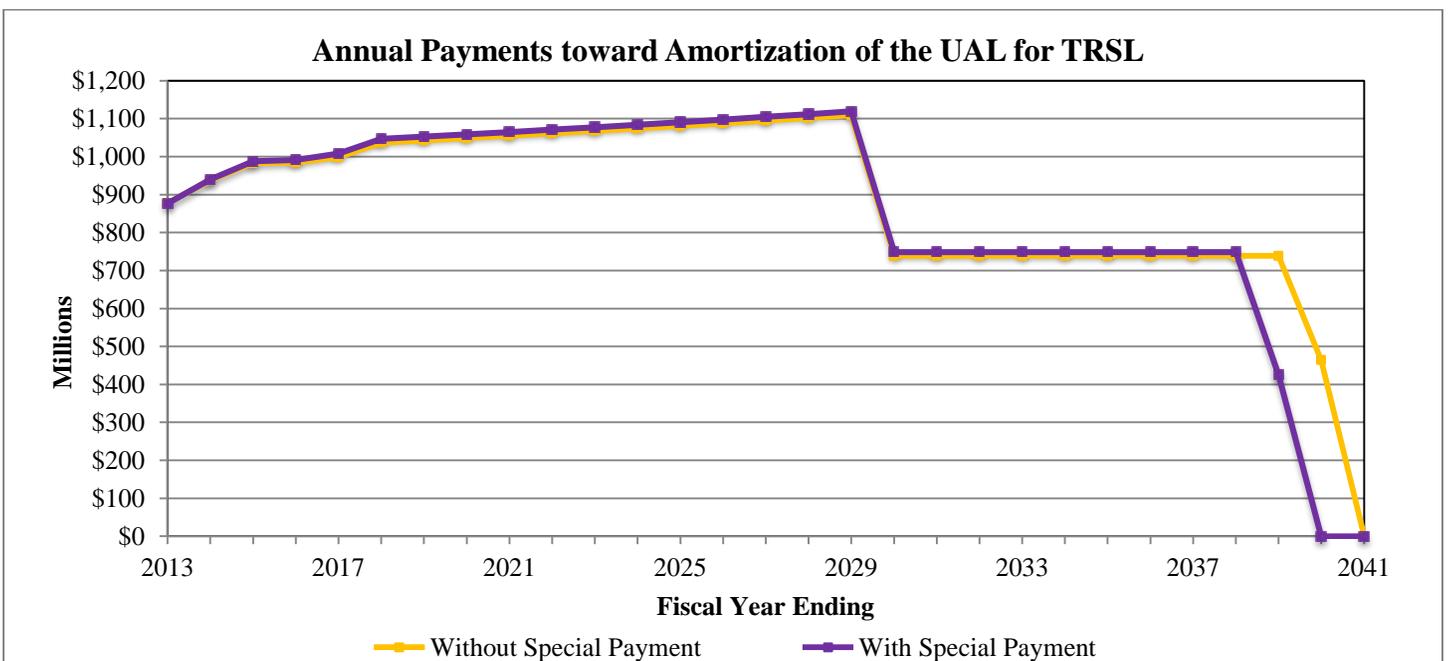
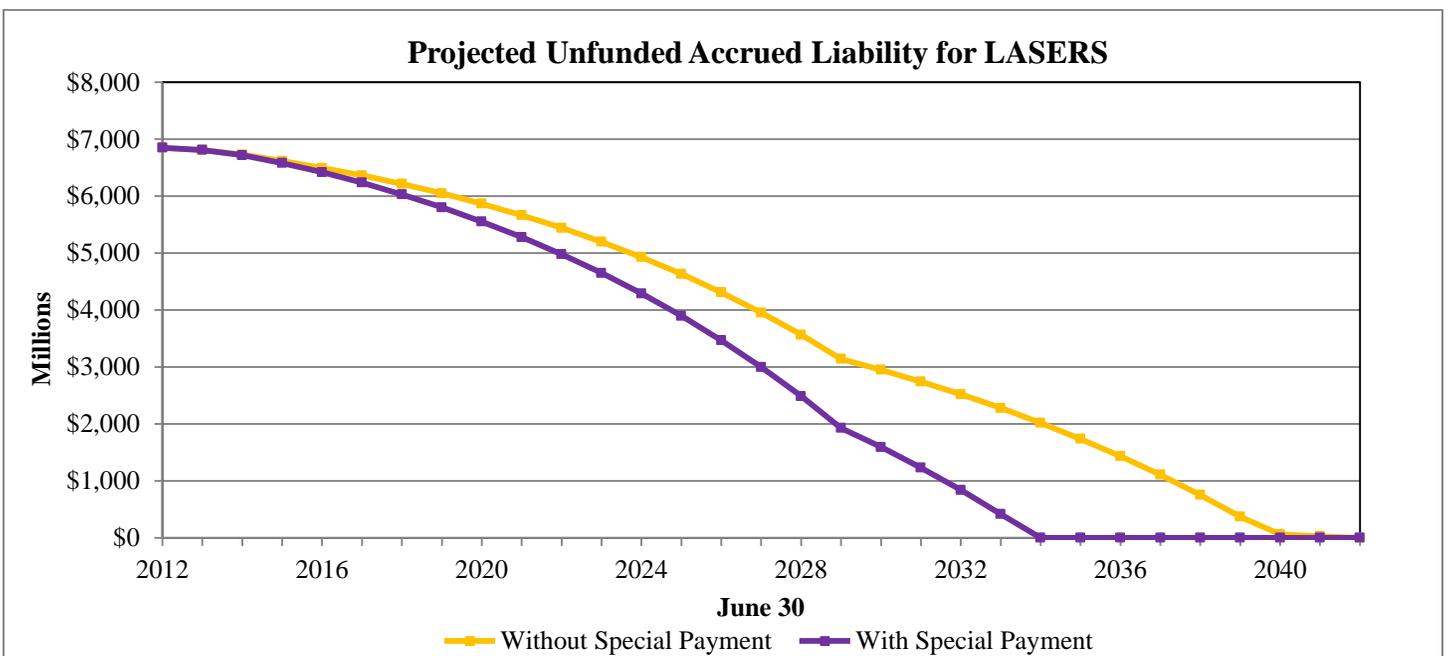
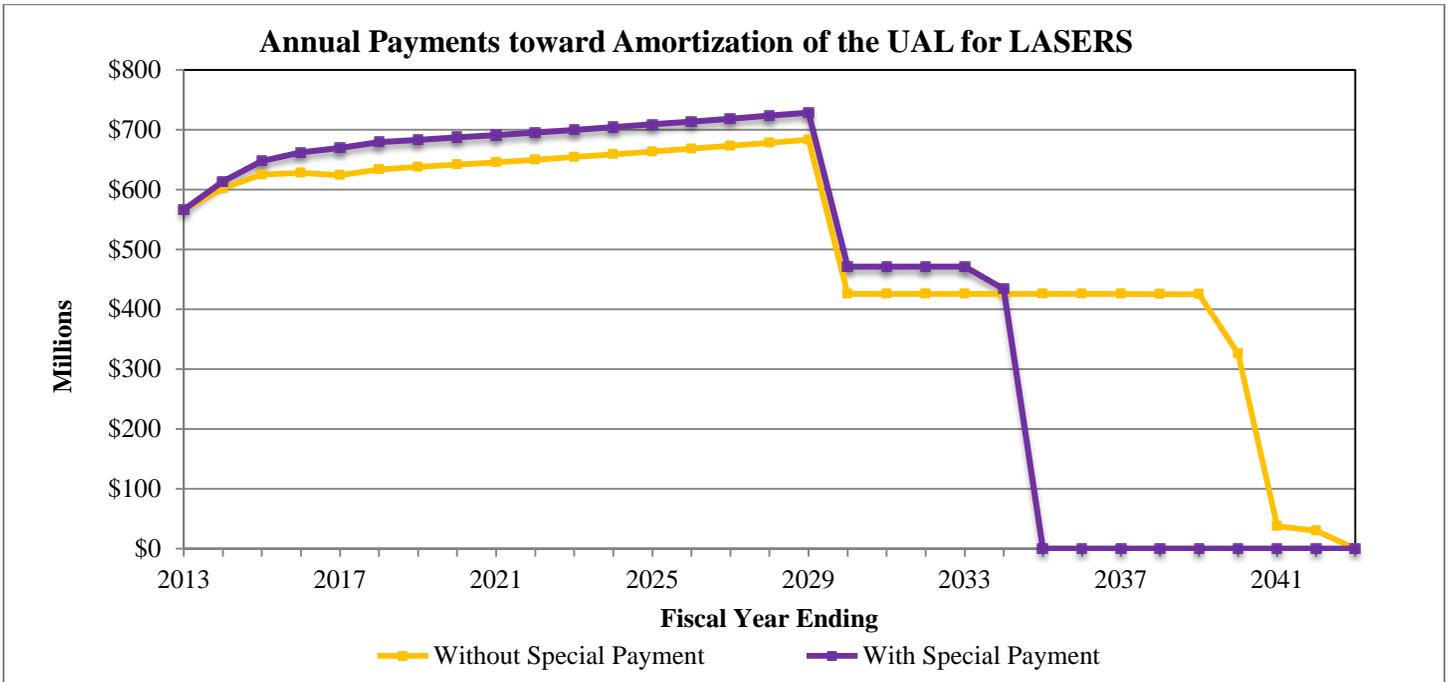
	<b>Before Change</b>	<b>After Change</b>	<b>Increase/(Decrease)</b>
Accrued Liability	\$ 24,942,200,000	\$ 24,942,200,000	\$ 0
Total Normal Cost	568,000,000	577,000,000	9,000,000
Employer Normal Cost	239,100,000	239,100,000	0
Amortization of Accrued Liability	877,200,000	877,200,000	0
Employer Contribution Requirements	1,116,300,000	1,116,300,000	0
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%	5.8055%	0.0000%
Employer Amortization Rate	18.6537%	18.6537%	0.0000%
Total Employer Rate	24.5%	24.5%	0.0%

Total changes in cost for LASERS and TRSL combined from SB 52 are summarized below:

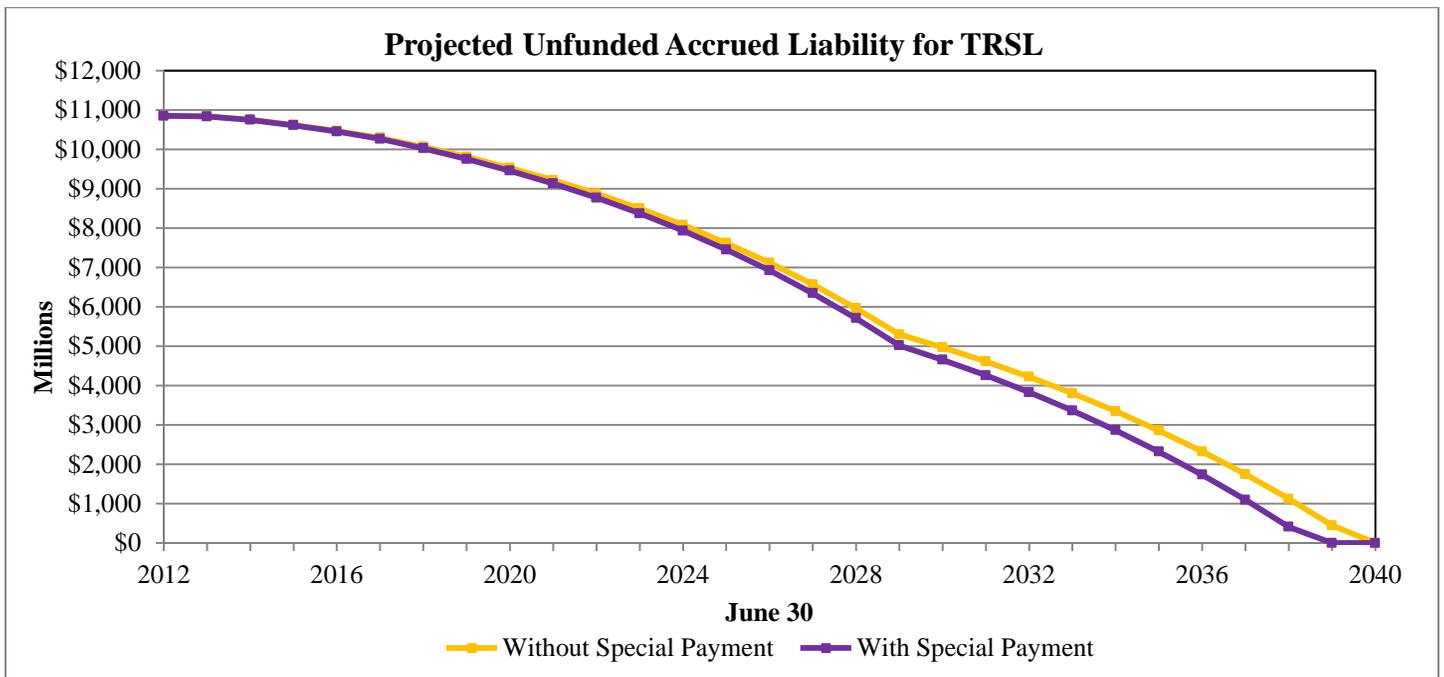
1. The accrued liability in total will increase \$0.0 million.
2. Employer normal costs will increase \$0.0 million.
3. Amortization costs will increase \$0.0 million.
4. Employer contribution requirements will increase \$0.0 million.
5. Employee contributions net of the present value of refunds will increase \$13.6 million in FY 2014, \$27.1 million in FY 2015, \$40.7 million in FY 2016, and \$54.2 million each year thereafter.

Under SB 52, additional employee contributions net of refunds 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, 2033, 8 years earlier than currently scheduled. For TRSL, full amortization of the UAL will occur one year earlier than scheduled,

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Realization of these savings may be delayed or may never occur. It is likely that the constitutionality of SB 52 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](http://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 52 should only have a small impact on actuarial funding for LASERS and TRSL, regardless of the decision. If SB 52 is declared constitutional, nothing changes. If it is declared unconstitutional, then employee contributions will have to be refunded. However, because employer contribution requirements have not been reduced, the retirement systems should be able to refund contributions to employees, restore the UAL balances to their originally scheduled amounts, and resume actuarial funding as if SB 52 had never been enacted.

**Other Post Retirement Benefits**

There are no actuarial costs associated with SB 52 for post-employment benefits other than pensions.

**Analysis of Fiscal Costs**

The effects of SB 52 on fiscal costs are given below assuming the constitutionality of SB 52 will be upheld should it be challenged.

Expenditures:

1. Expenditures from General Funds will not change because employer contribution requirements will not change.
2. Expenditures from the General Fund will increase to the extent that the state may be required to defend the legal challenges that will be brought to the courts. Additional litigation costs that may be incurred by various government entities relative to SB 52 have been estimated to range from \$750,000 to \$3,000,000.
3. Expenditures from LASERS and TRSL (Agy Self-Generated) will increase because affected members who terminate employment will receive larger refunds than what they would have received without SB 52.
4. Expenditures by LASERS and TRSL (Agy Self-Generated) will increase because of implementation costs which are estimated to be about \$26,000 in FY 2013.

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Revenues:

1. LASERS and TRSL revenues (Agy Self-Generated) will increase because employee contributions will increase about \$45.2 million for LASERS and about \$9.0 million for TRSL. Employer contributions will not change.

The effect of SB 52 on actuarial and fiscal savings may change from the amounts shown above based on the following:

1. The constitutionality of SB 52 is likely to 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 52 is challenged in the courts and an injunction is given delaying implementation of the provisions of the bill.
2. SB 52 is litigated and is declared unconstitutional.
3. SB 52 is litigated and is declared constitutional.

If any outcome except that last occurs, actuarial and fiscal savings or costs 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 30, 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 Disclosure**

Paul T. Richmond, the author of this actuarial note, is personally affected by the provisions of SB 52. If he works until he retires, he will contribute \$4,500 more to the retirement system if the bill is enacted than he would without enactment. This disclosure is being made in compliance with Precepts 6 and 7 of the Professional Code of Conduct set forth by the American Academy of Actuaries. I, Paul T. Richmond, hereby certify that my analysis of SB 52 has not been affected in any manner by its potential effect on me personally.

**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