

**2012 REGULAR SESSION
ACTUARIAL NOTE for SB 47, 52, and 749 COMBINED**

<p>Senate Bill 47-52-749 Combined Reengrossed</p> <p>Author: Senator Elbert L Guillory Date: May 10, 2012</p> <p>LLA Note SB 47-52-749.03</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> <p style="text-align: center; font-size: 24pt; font-weight: bold; margin-top: 100px;">INFORMATIONAL REPORT</p>
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Bill Header: RETIREMENT SYSTEMS: Provides relative to final average compensation. Increases the employee contribution rate for certain members of state retirement systems. Provides for retirement eligibility for certain state employees. (7/1/12).

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

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	2016-17	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	2016-17	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 47-52-749 will be unsuccessful.

Note: All references to SB 47-52-749 in this actuarial note pertain to the combination of the reengrossed versions of SB 47, SB 52, and SB 749 including amendments adopted by the Senate Finance Committee.

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Actuarial Note Highlights

1. Under SB 47, the number of months of earnings that must be included in the calculation of Final Average Compensation will be increased from 36 months to 60 months. This will be phased in over a two year period beginning July 1, 2013.
2. Under SB 52, the employer contribution rate will be increased 2% of pay. The increase will be phased in over a four year period beginning July 1, 2013.
3. Under SB 749, ages at which members will be allowed to retire with unreduced benefits will be increased. SB 749 becomes effective July 1, 2013.
4. In general, members will pay more to get less at a later date.
5. Employer contributions to LASERS and TRSL will not change.
6. Savings resulting for SB 47-52-749 will be applied toward the UAL. The UAL will be paid off 10 years earlier than originally scheduled for LASERS and two years sooner for TRSL.
7. Savings or costs to the state may be delayed due to constitutional challenges.

Bill Information:

See actuarial notes for SB 47, SB 52 and SB 749.

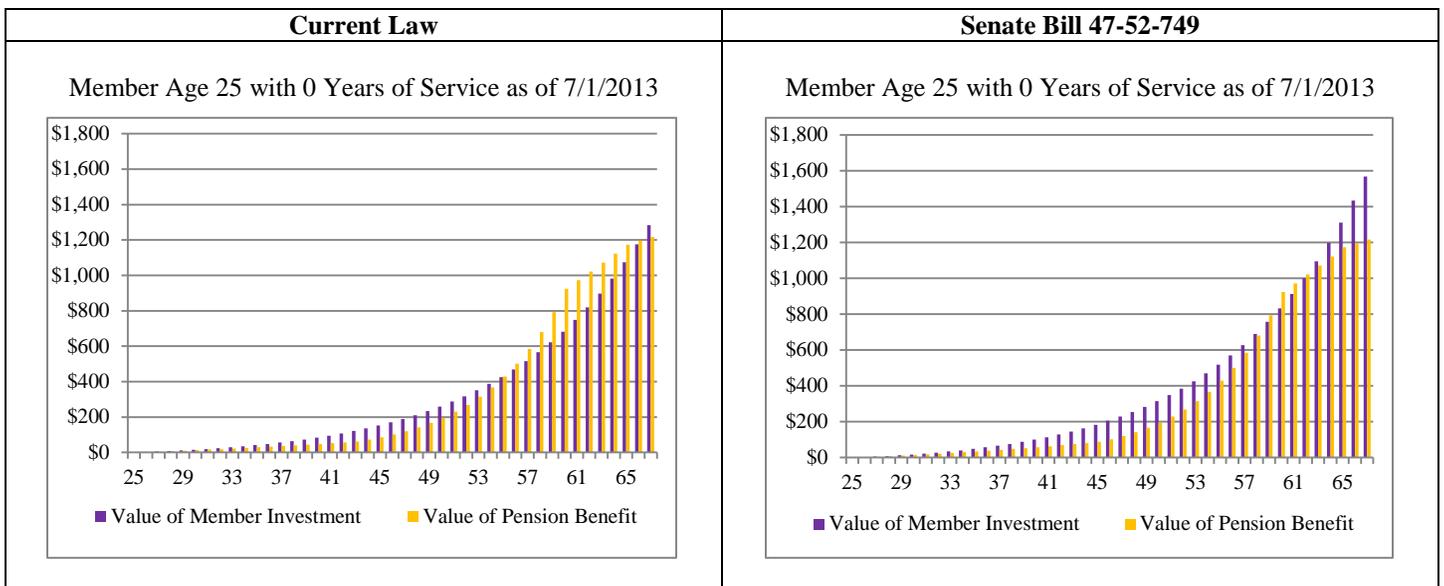
Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Effect of SB 47-52-749 on Members

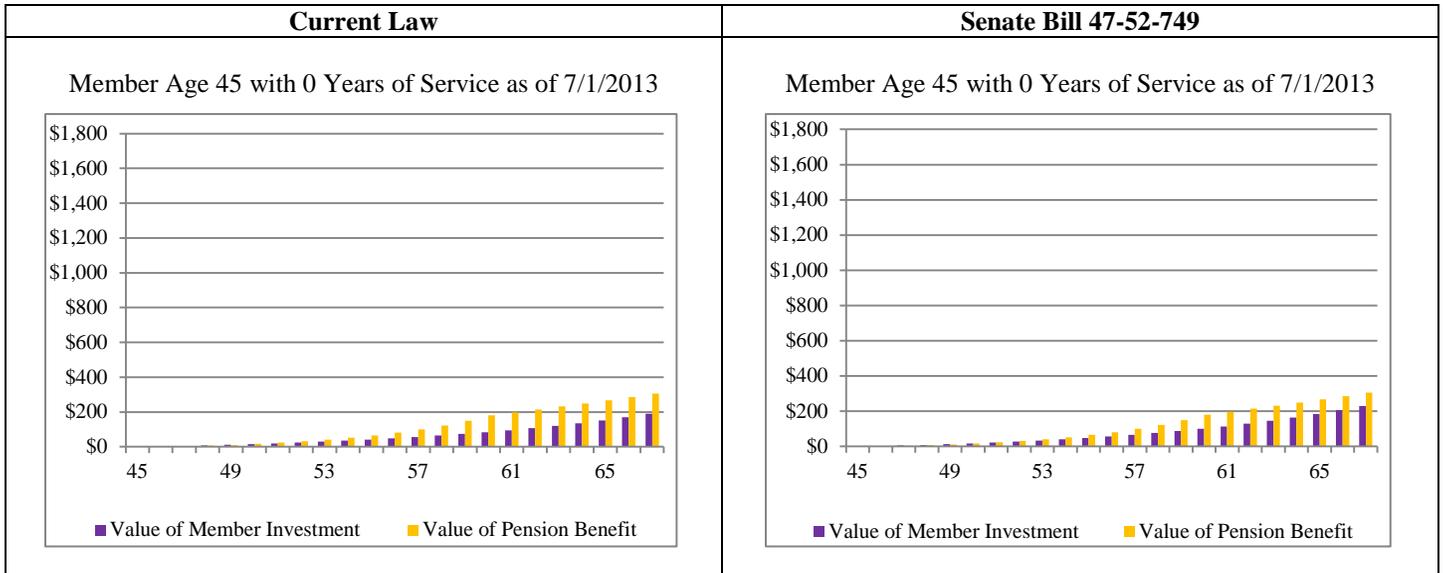
The value of the benefit a member will earn from his own contributions accumulated with interest is compared below to the value of the pension benefit the members earns from the retirement system. Purple bars reflect the member's investment; gold bars reflect the value of the pension benefit. Two comparisons are made for each member situation – one comparison under current law and the other under the provisions of SB 47-52-749 as combined. Although each example is based on a member who is earning \$30,000 a year, the comparisons will be similar regardless of income level.



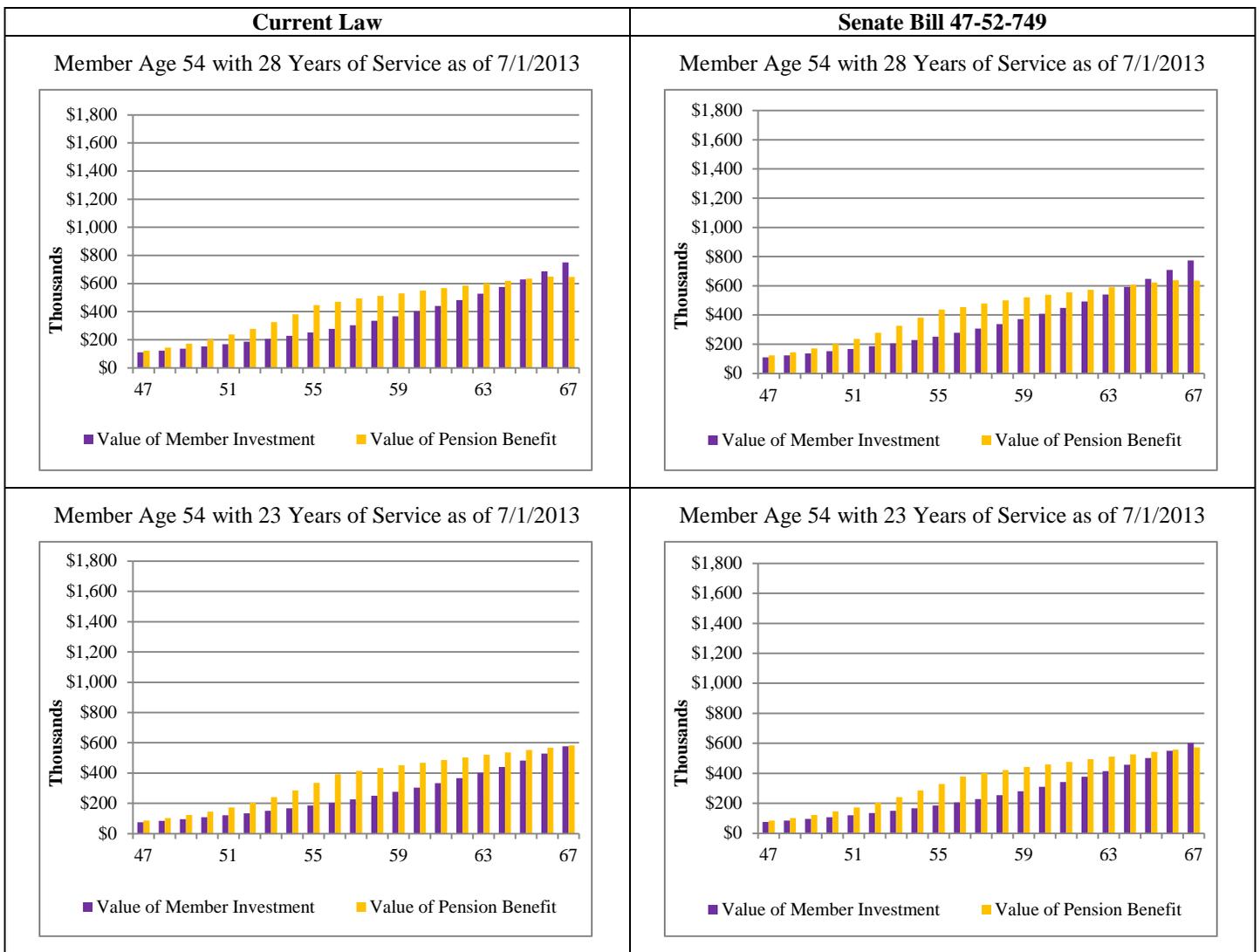
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Current Law	Senate Bill 47-52-749
<p align="center">Member Age 35 with 10 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 35 with 10 Years of Service as of 7/1/2013</p>
<p align="center">Member Age 45 with 20 Years of Service as of 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>
<p align="center">Member Age 45 with 10 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 45 with 10 Years of Service as of 7/1/2013</p>

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Additional comparisons are made below for participants with other characteristics. The analyses for these examples are based on members currently earning \$60,000.



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Current Law	Senate Bill 47-52-749
<p align="center">Member Age 44 with 18 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 44 with 18 Years of Service as of 7/1/2013</p>
<p align="center">Member Age 44 with 13 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 44 with 13 Years of Service as of 7/1/2013</p>
<p align="center">Member Age 34 with 8 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 34 with 8 Years of Service as of 7/1/2013</p>
<p align="center">Member Age 34 with 3 Years of Service as of 7/1/2013</p>	<p align="center">Member Age 34 with 3 Years of Service as of 7/1/2013</p>

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Three general conclusions can be drawn from these exhibits.

1. The benefit that a member receives from the retirement system under current law is generally less than his investment should he terminate employment prior to traditional retirement ages.
2. The benefit that a member receives from the retirement system under current law is generally more than his investment if he works until the traditional retirement ages. Nevertheless, his own investment still funds a significant portion of the pension benefit he will receive.
3. Under SB 47-52-749, a member will need to make a greater investment, work longer, and receive a smaller benefit.

Effect of SB 47-52-749 on Actuarial Costs

SB 47-52-749 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	\$ 15,672,900,000	\$ (189,200,000)
Total Normal Cost	372,900,000	408,300,000	35,400,000
Employer Normal Cost	172,900,000	163,100,000	(9,800,000)
Amortization of Accrued Liability	546,000,000	529,400,000	(16,600,000)
Employer Contribution Requirements	718,900,000	692,500,000	(26,400,000)
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%	6.3973%	(0.3854)%
Employer Amortization Rate	21.4130%	20.7644%	(0.6486)%
Total Employer Rate	28.2%	27.2%	(1.0)%

TRSL

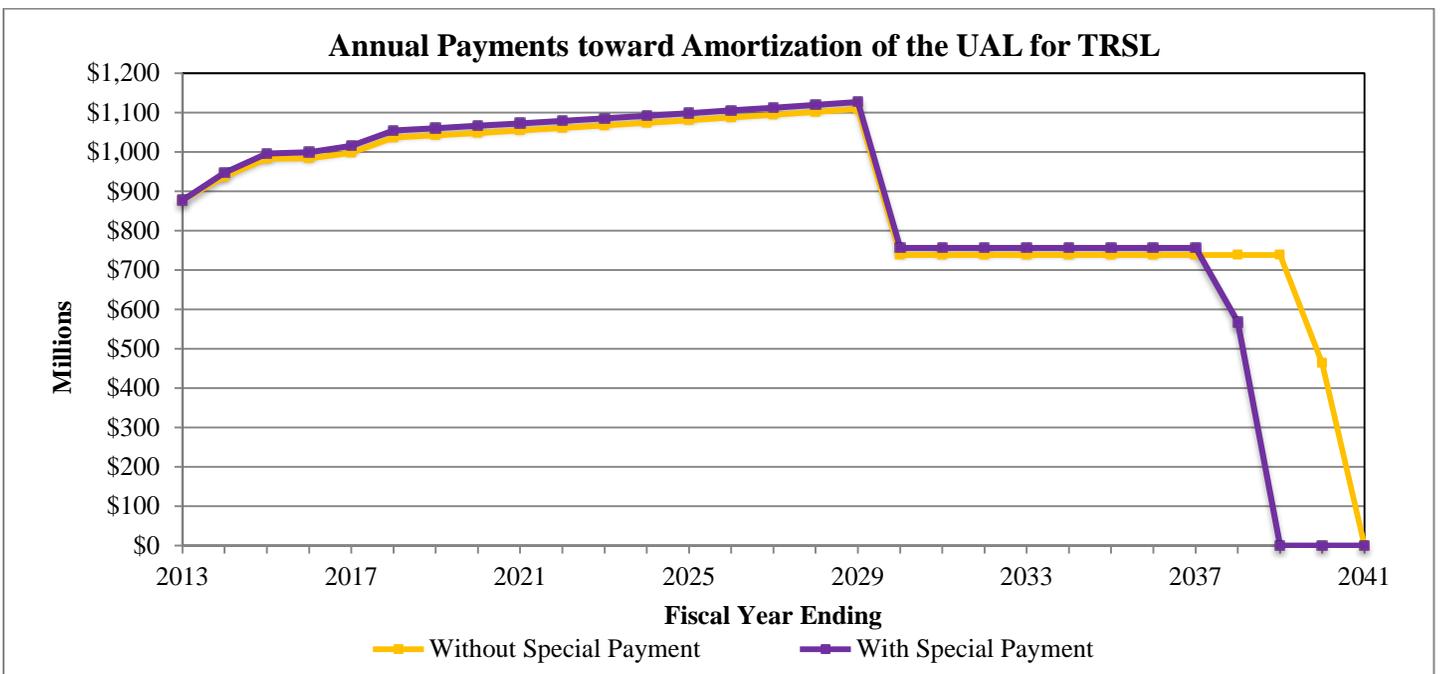
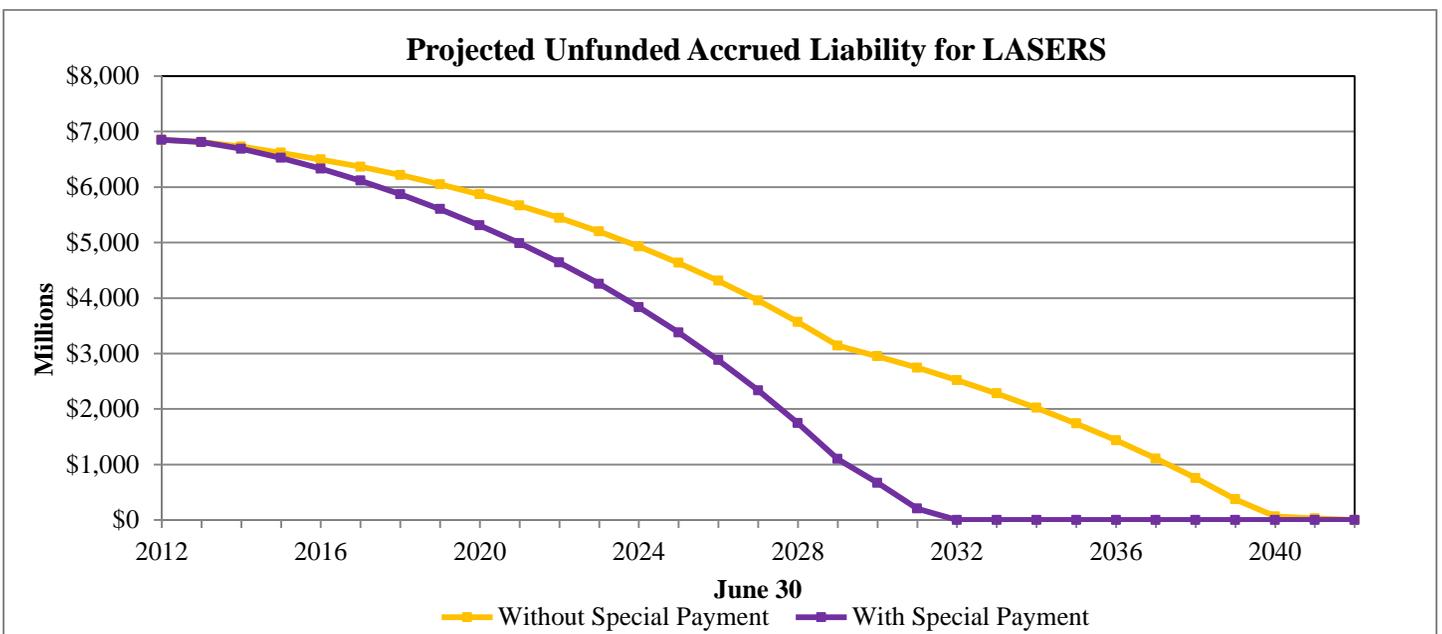
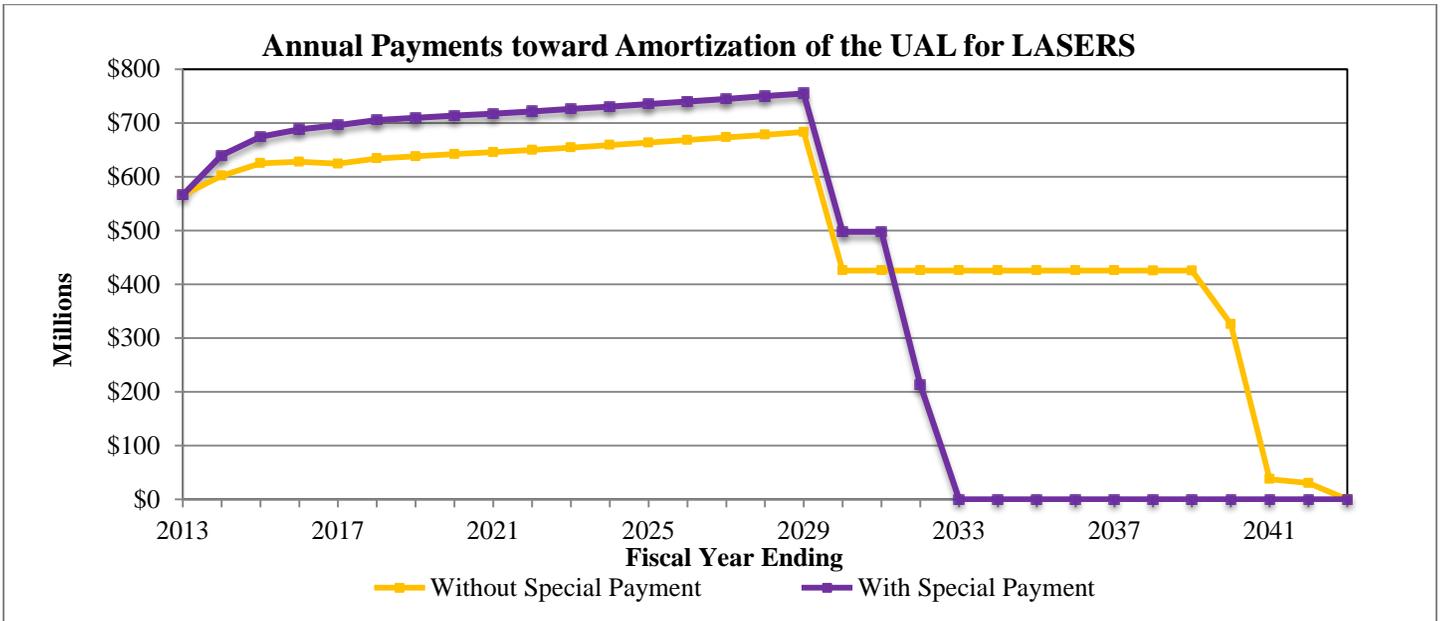
	Before Change	After Change	Increase/(Decrease)
Accrued Liability	\$ 24,942,200,000	\$ 24,906,000,000	\$ (36,200,000)
Total Normal Cost	568,000,000	572,500,000	4,500,000
Employer Normal Cost	239,100,000	234,600,000	(4,500,000)
Amortization of Accrued Liability	877,200,000	874,000,000	(3,200,000)
Employer Contribution Requirements	1,116,300,000	1,108,600,000	(7,700,000)
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%	5.6960%	(0.1095)%
Employer Amortization Rate	18.6537%	18.5865%	(0.0672)%
Total Employer Rate	24.5%	24.3%	(0.2)%

Total changes in cost for LASERS and TRSL combined from SB 47-52-749 are summarized below:

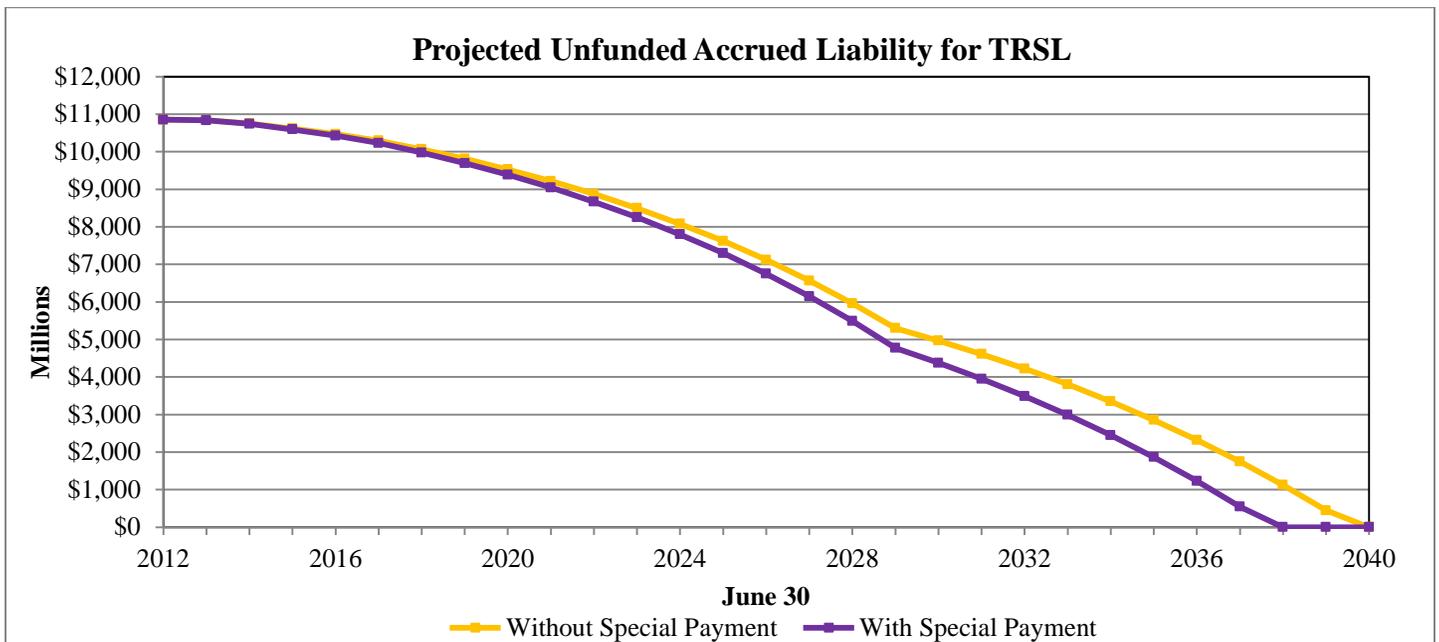
1. The accrued liability in total will decrease \$225.4 million.
2. Employer normal costs will decrease \$14.3 million.
3. Amortization costs will decrease \$19.8 million.
4. Employer contribution requirements will decrease \$34.1 million.
5. Employee contributions net of the present value of refunds 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 47-52-749, the savings realized and the 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, 10 years earlier than currently scheduled. For TRSL, full amortization of the UAL will occur 2 years 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 47-52-749 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 47-52-749 should only have a small impact on actuarial funding for LASERS and TRSL, regardless of the decision. If SB 47-52-749 is declared constitutional, nothing changes. If it is declared unconstitutional, then employee contributions will have to be refunded and benefits restored. However, because employer contribution requirements have not been reduced, the retirement systems should be able to refund contributions to employees, restore benefits, restore the UAL balances to their originally scheduled amounts, and resume actuarial funding as if SB 47-52-749 had never been enacted.

Other Post Retirement Benefits

Actuarial costs associated with SB 47-52-749 for post-employment benefits other than pensions should be reduced tot the extent that members delay retirement because of the new rules.

Analysis of Fiscal Costs

The effects of SB 47-52-749 on fiscal costs are given below assuming the constitutionality of SB 47-52-749 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 47-52-749 have been estimated to range from \$750,000 to \$3,000,000.
3. Expenditures by 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 47-52-749.
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.
5. Expenditures by LASERS and TRSL will decrease because benefit payment will be smaller.

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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.
2. LASERS and TRSL revenues will increase to the extent that members purchase air time that they otherwise would not have purchased except for SB 47-52-749.

The effect of SB 47-52-749 on actuarial and fiscal savings may change from the amounts shown above based on the following:

1. The constitutionality of SB 47-52-749 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 47-52-749 is challenged in the courts and an injunction is given delaying implementation of the provisions of the bill.
2. SB 47-52-749 is litigated and is declared unconstitutional.
3. SB 47-52-749 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 47-52-749. 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 47-52-749 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