

**(KEYWORD, SUMMARY, AND DIGEST as amended by Senate committee amendments)**

**RETIREMENT/STATE SYSTEMS, Provides for a cash balance plan for certain state employees.**

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DIGEST

Present law with regard to the Louisiana State Employees' Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), and the Louisiana School Employees' Retirement System (LSERS) provides for benefits for any person whose first employment making him eligible for state system membership began on or after Jan. 1, 2011. All members of LSERS and TRSL and all non-hazardous duty members of LASERS have the following general benefit design:

- (1) Employee contributions of 8% of pay.
- (2) Eligibility for retirement with an unreduced benefit with five years of service at age 60.
- (3) Eligibility for retirement with an actuarially-reduced benefit with 20 years at any age.
- (4) Lifetime annuity calculated according to the formula:  
(2.5%) x (years of service) x (final average compensation of highest 60 months)

Proposed law provides for a cash balance retirement plan (CBP) for certain members LASERS, and all members of TRSL and LSERS, whose first employment making them eligible for state system membership begins on or after July 1, 2013.

The CBP has the following general benefit design, which is further detailed below:

- (1) Employee contributions of 8% of pay.
- (2) Additional pay credits of 4% of pay, plus interest, for the duration of state service.
- (3) Account balance never decreases.
- (4) Eligibility to withdraw employee contributions at any time after separation from service with less than five years of participation.
- (5) Eligibility to withdraw the full account balance (all pay credits and interest) at any time after separation from service with five or more years of participation.
- (6) Eligibility to have account balance paid as a life time annuity beginning at age 60.

Proposed law mandates participation in the CBP for nonhazardous duty members of LASERS and post-secondary education members TRSL. Allows elementary and secondary employees in TRSL and all members of LSERS, who are not mandated to join the CBP, to make an irrevocable election to join the CBP within 60 days of employment.

Proposed law creates individual CBP nominal accounts within the retirement system trust containing annual pay credits of 12%, which includes the employee's 8% contribution. Provides for an interest credit annually to each member's account equal to one percentage point less the system's actuarial rate of return, which is currently assumed to be 8%. Provides that interest is credited in a manner similar to interest on Deferred Retirement Option Plan (DROP) accounts after the Public Retirement Systems' Actuarial Committee (PRSAC) adopts an actuarial valuation containing the actuarial rate of return for the system. Further provides that a CBP member will not be credited with interest for months that he was not a member of the plan. Provides the CBP member's account cannot be debited for losses.

Proposed law further provides for withdrawal by an employee from the CBP. If a member with less than five years withdraws from the plan, he will receive a refund of all employee contributions, without interest, as he would under present law. If a member with five years or more withdraws from the plan, he is entitled to receive the balance of his account, either in a lump sum or as a direct transfer to certain other types of accounts. Such employee may also opt to leave his account balance with the system and draw an annuity pursuant to

proposed law when the member attains age 60. However, no further credits or interest will be added to his account.

Proposed law provides for reciprocal recognition of service under present law. Proposed law provides for transfer from the CBP of one system to the CBP of another.

Proposed law provides for survivor benefits for members of the CBP. Provides that if the decedent leaves no surviving children, the surviving spouse may receive either:

- (1) The benefit he or she would have been entitled to had the deceased been in the present law plan OR
- (2) The lump sum of the deceased's CBP account balance.

Provides that if the decedent leaves surviving children, allows the spouse and surviving children to receive the present law survivor benefit. If the deceased member did not meet the present law survivor benefit eligibility requirements, proposed law allows the designated beneficiary or the deceased's estate to receive the CBP account balance.

Proposed law provides for disability benefits for members of the CBP. Allows the member to elect to receive either:

- (1) The lump-sum of his CBP account balance; OR
- (2) The present law disability benefit if he otherwise meets the eligibility requirements for such benefit.

Proposed law provides that, if a member or survivor chooses to receive the present law survivor or disability benefit, the balance of the member's CBP account shall remain at the system.

Proposed law provides for annuitization of a CBP member's benefit. A member is eligible for an annuity if he has at least five years of membership in the CBP and has attained age 60. Provides further that the member may elect to receive an annuity throughout his life or he may elect to receive the actuarial equivalent of his retirement allowance as a reduced retirement allowance payable throughout his life pursuant to any retirement option provided in present law for system members. Provides that the system shall annuitize and pay any such allowance chosen by the member. Provides that in no case shall the system pay total benefits of an amount less than the employee's accumulated contributions, as provided in present law.

Proposed law prohibits a CBP member from participating in the Deferred Retirement Option Program (DROP) or any similar program that requires continued employment for participation, or in Back-DROP.

Proposed law authorizes a CBP member to elect an initial benefit option (IBO), an initial lump sum benefit option (ILSB), or any similar retirement option designed to provide a reduced annuity in exchange for a lump-sum payment upon separation from service.

Proposed law, provides that if a CBP member withdraws from the plan or annuitizes his benefit and then becomes reemployed in a position covered by the CBP, accumulation in the CBP shall resume. Such reemployment shall not, however, affect his receipt of the lump sum or annuity from his first cash balance account.

Proposed law provides that present law provisions (designated "Tier 1") shall apply to the CBP for any matter on which the CBP provisions are silent. In case of conflict between Tier 1 provisions and the CBP provisions, the CBP provisions control.

Proposed law provides that PRSAC may adopt a valuation for use in the 2013-14 fiscal year for a system affected by proposed law prepared on behalf of the division of administration by a qualified actuary after proposed law becomes effective.

Proposed law requires the division of administration to study the feasibility of enrolling CBP members in Social Security and report findings to PRSAC at its first meeting in 2013. Requires the division of administration to perform a cost-benefit analysis of providing an increased pay scale for employees required to be in the CBP.

Proposed law provides for an expedited hearing in the courts for any legal issues raised in relation to the proposed law. Establishes venue in the 19<sup>th</sup> Judicial District Court. Requests a final disposition of legal issues at least 30 days prior to the prefiling deadline for the 2013 R.S.

Effective June 30, 2012.

(Amends R.S. 11:62(4)(intro. para.), (5)(intro. para.), and (11)(intro. para.), 102(B)(1) and (3)(a) and (d)(v), (vi), and (vii), 542(A)(2)(a), 883.1(A)(2)(a), and 1145.1(A)(1)(intro. para.) and (a), (C)(4)(a)(intro. para.), and (E); Adds R.S. 11:62(4.1), (5.1), and (11.1), 102(C)(1)(m), 542(C)(4)(d)(iii) and (e)(iii), 883.1(C)(4)(d)(iii) and (e)(iii), 1145.1(C)(4)(a)(iii) and (b)(iii), and 1399.1-1399.7)

### Summary of Amendments Adopted by House

#### Committee Amendments Proposed by House Committee on Retirement to the original bill.

1. Changes the date the Cash Balance Plan (CBP) becomes mandatory from Jan. 1, 2013 to July 1, 2013.
2. Removes a prohibition on members who would have been in the Hazardous Duty Plan if they had been hired after Dec. 31, 2010, from opting into the CBP.
3. Authorizes a CBP member who has more than five years of membership in the plan upon withdrawal from the plan to take the total of his account balance as a direct transfer to another qualified retirement plan or an individual retirement account.
4. Requires the system to annuitize and pay any retirement option elected by a qualified CBP member.
5. Requires the valuation to be adopted by the Public Retirement Systems Actuarial Committee (PRSAC) to take into account all changes enacted by the legislature in the 2012 R.S.
6. Authorizes PRSAC to adopt for FY 2012-2013 an actuarial valuation or revised employer contribution rate prepared on behalf of the division of administration by a qualified actuary.
7. Adds an expedited hearing provision regarding legal challenges to the Act.

#### House Floor Amendments to the engrossed bill.

1. Requires the division of administration to study the feasibility of enrolling cash balance plan members in Social Security and report its findings to PRSAC.
2. Requires the division of administration to perform a cost-benefit analysis of providing an increased pay scale for employees required to be in the cash balance plan.
3. Provides that interest is to be credited after PRSAC approves the system's actuarial rate of return.

4. Authorizes a CBP member who transferred to defined benefit plan in another system to use his years of service in the CBP to meet the regular retirement eligibility in that defined benefit plan.
5. Establishes provisions governing current defined benefit members who opt into the CBP. Provides that such members will be considered members of both plans and that decisions or elections made in one plan will not automatically apply to the other plan. Further:
  - (a) Allows a member to withdraw or retire from one plan but not the other.
  - (b) Provides options for members who retire under one plan but do not have enough years of service to retire under the other.
  - (c) Allows a member to use his years of membership in the cash balance plan to meet retirement eligibility requirements in the defined benefit plan.
  - (d) Provides relative to survivor and disability benefits for such members.
  - (e) Provides relative to members returning to work.
6. Provides that a current employee may not opt into the CBP if his employee contribution rate is different from what would be required under the CBP unless his current plan and the CBP have received approval from the IRS that such action will not adversely affect the tax qualification status of either system.
7. Provides for survivor benefits for members of the CBP. Allows the surviving spouse to choose either: (i) the benefit he or she would have been entitled to had the deceased been in the applicable defined benefit plan OR (ii) the lump sum of the deceased's CBP account balance. Allows the surviving children to receive the applicable defined benefit plan benefit. If the deceased member did not meet the eligibility requirements under the applicable defined benefit plan for a survivor benefit, allows the designated beneficiary or the deceased's estate to receive the CBP account balance.
8. Provides for disability benefits for members of the CBP. Allows the member to elect to receive either: (i) the lump-sum of his CBP account balance OR (ii) the applicable defined benefit plan disability benefit if he otherwise meets the eligibility requirements for such benefit.
9. Removes requirement that the attorney general and the governor be served if suit is filed.

#### Summary of Amendments Adopted by Senate

##### Committee Amendments Proposed by Senate Committee on Retirement to the reengrossed bill

1. Provides for technical corrections.
2. Provides that, if a member chooses to receive the Tier 1 survivor or disability benefit, the balance of the member's cash balance plan shall remain at the system.
3. Removes the provision allowing current members to opt into the cash balance plan.

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Finance to the reengrossed bill

1. Provides for technical corrections.
2. Allows an employee whose membership in the CBP is not mandatory 60 days after employment to elect to join the CBP.