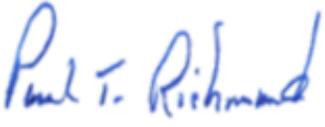


**2012 REGULAR SESSION
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<p>Senate Bill 52 SLS 12RS-125 Re-Reengrossed with Proposed House Committee Amendment # 4872 and Proposed Legislative Bureau Amendment # 5121</p> <p>Author: Senator Elbert L Guillory Date: May 29, 2012</p> <p>LLA Note SB 52.05</p> <p>Organizations Affected: Louisiana State Employees' Retirement System (LASERS) Teachers' Retirement System of Louisiana (TRSL)</p> <p>RR1 NO IMPACT 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 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.

<u>Actuarial Cost to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
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.

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	\$ 0	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

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	0	0	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	\$ 0	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.

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Note: All references to SB 52 in this actuarial note pertain to the re-reengrossed version of SB 52 with proposed House Committee Amendment # 4872 and proposed Legislative Bureau Amendment #5121.

Actuarial Note Highlights

1. Employees will be required to contribute 2.0% of pay more than they currently contribute once SB 52 is fully implemented. The employee rate will increase 0.5% on July 1 of the first year of implementation, another 0.5% on July 1 of the second implementation year, another 0.5% on July 1 of the third implementation year, and yet another 0.5% on July 1 of the fourth implementation year.
2. Employee contributions to LASERS in the fourth year following implementation will be \$45.2 million larger than they are currently and employee contributions for TRSL will be \$9.0 million larger.
3. Implementation of SB 52 will be delayed for most affected members until at least July 1, 2014.
4. We estimate that additional contributions from affected members of LASERS will be required for about 9 years. Additional contributions from affected members of TRSL will be required for about 11 years.
5. Members who are just beginning their career may receive less from the retirement plan than what they would have received had they invested their own contributions.
6. Employer contributions to LASERS and TRSL will not change.
7. The UAL will be paid off 6 years earlier than originally scheduled for LASERS and one year sooner for TRSL.
8. 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. Current contribution requirements by members of LASERS and TRSL affected by SB 52 are shown below by member category.

Member Category	Current Law
The governor, lieutenant governor, and legislators who joined LASERS before January 1, 2011.	11.5%
Court officers, the governor, the lieutenant governor, and legislators who join LASERS on or after January 1, 2011	8.0%
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: On or after January 1, 2011:	9.5% 8.0%
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%

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Member Category	Current Law
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%

Proposed Law

Under SB 52, additional contributions will be required by members of LASERS and TRSL identified above. A series of increases will begin on the July 1 following the date a member's base salary becomes 4% larger than his base salary on July 1, 2012. The member's contribution rate will increase by 0.5% of pay in the first year, an additional 0.5% of pay in the second year, an additional 0.5% of pay in the third year, and an additional 0.5% of pay in the fourth year. Members will pay these additional contribution rates until the retirement system to which they belong becomes 80% funded.

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.

Implementation of SB 52 may be delayed until a final non-appealable judgment is rendered in any action instituted on or before September 30, 2012 challenging the constitutionality of the bill. However, any delay in implementation must be approved by PRSAC.

PRSAC may adopt an actuarial valuation to be used for the fiscal year beginning July, 1, 2013 that has been prepared by an actuary engaged by the Division of Administration.

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 to reduce the UALs for LASERS and TRSL. Additional employee contributions will cease once the retirement systems attain 80% funding.

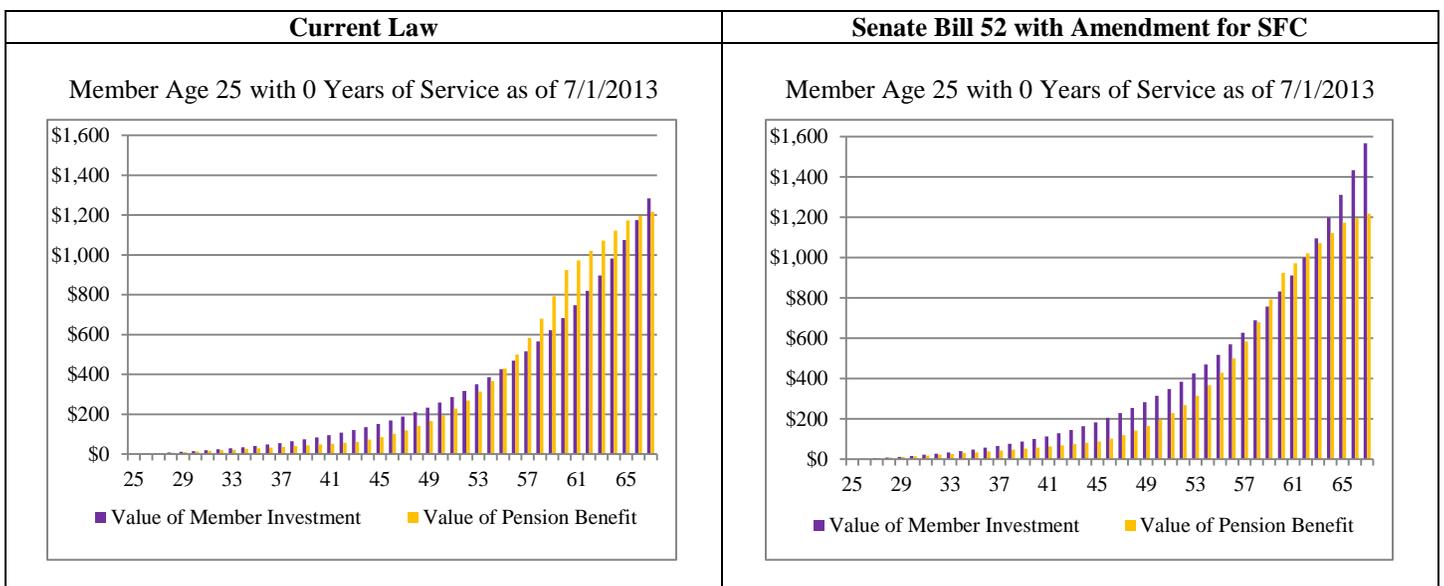
Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Effect of SB 52 on Members

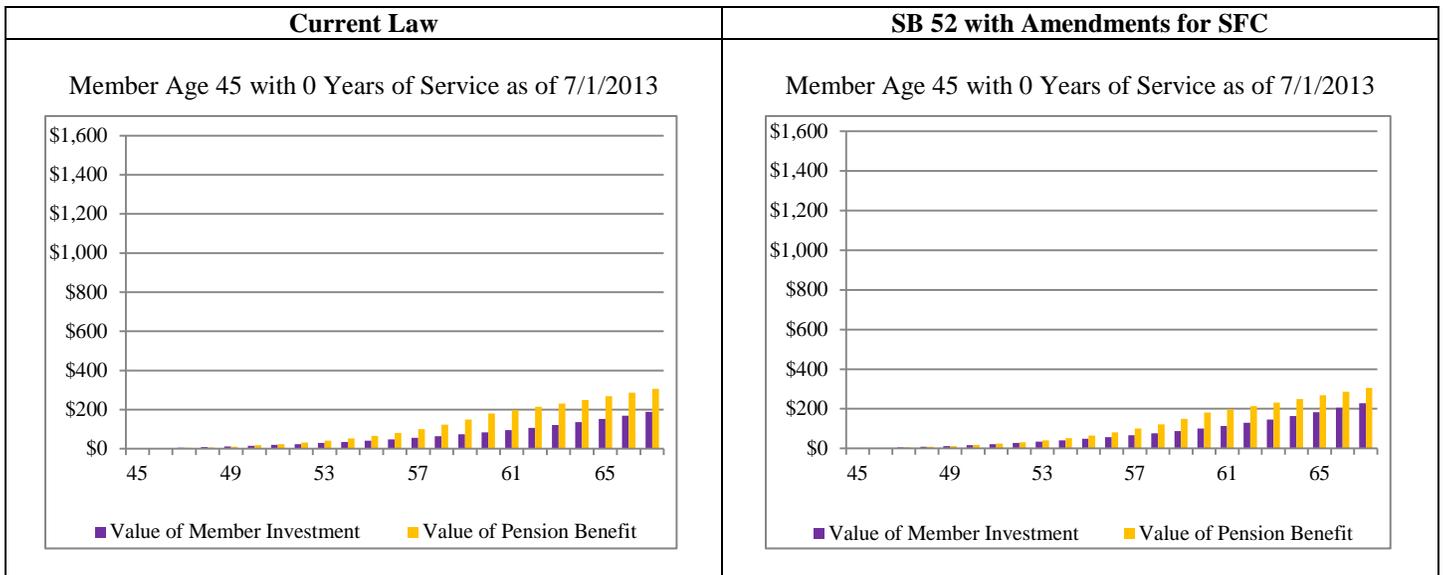
The value of the benefit a member will earn from his own contributions accumulated with interest is compared below to the value of the pension benefit the members earns from the retirement system. Purple bars reflect the member's investment; gold bars reflect the value of the pension benefit. Two comparisons 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 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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Note: The graphs shown on in the right column pertain only if additional employee contribution rates under SB 52 are charged throughout an employee's entire career with the state.

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 conclusions can be made:
 - a. A member will be required to contribute more toward his pension but his benefit from the retirement system will not change.
 - b. 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 that what their pensions are worth.

Effect of SB 52 on Actuarial Costs

It is likely that implementation will be delayed until at least FY 2015 for most members affected by SB 52. Given current budget constraints, it is likely that only a few members will receive a 4% pay increase in FY 2013. Most members will receive a 4% increase at the earliest in FY 2014. Therefore, the first year for which an additional 0.5% contribution will be required for these members will be FY 2015. Implementation could be delayed even further if the state's current budget crisis continues for another year or so.

SB 52 has no effect on the actuarial accrued liability, amortization payments necessary to pay off the unfunded accrued liability, normal costs, or employer contribution requirements. Additional contributions made by employees, net of refunds, will be used to reduce the unfunded accrued liability of the LASERS and TRSL. Affected members will be required to fund a pension debt that has been incurred by the state.

We estimate that as a result of the additional employee contributions, the UAL for LASERS and TRSL will decrease by the following amounts.

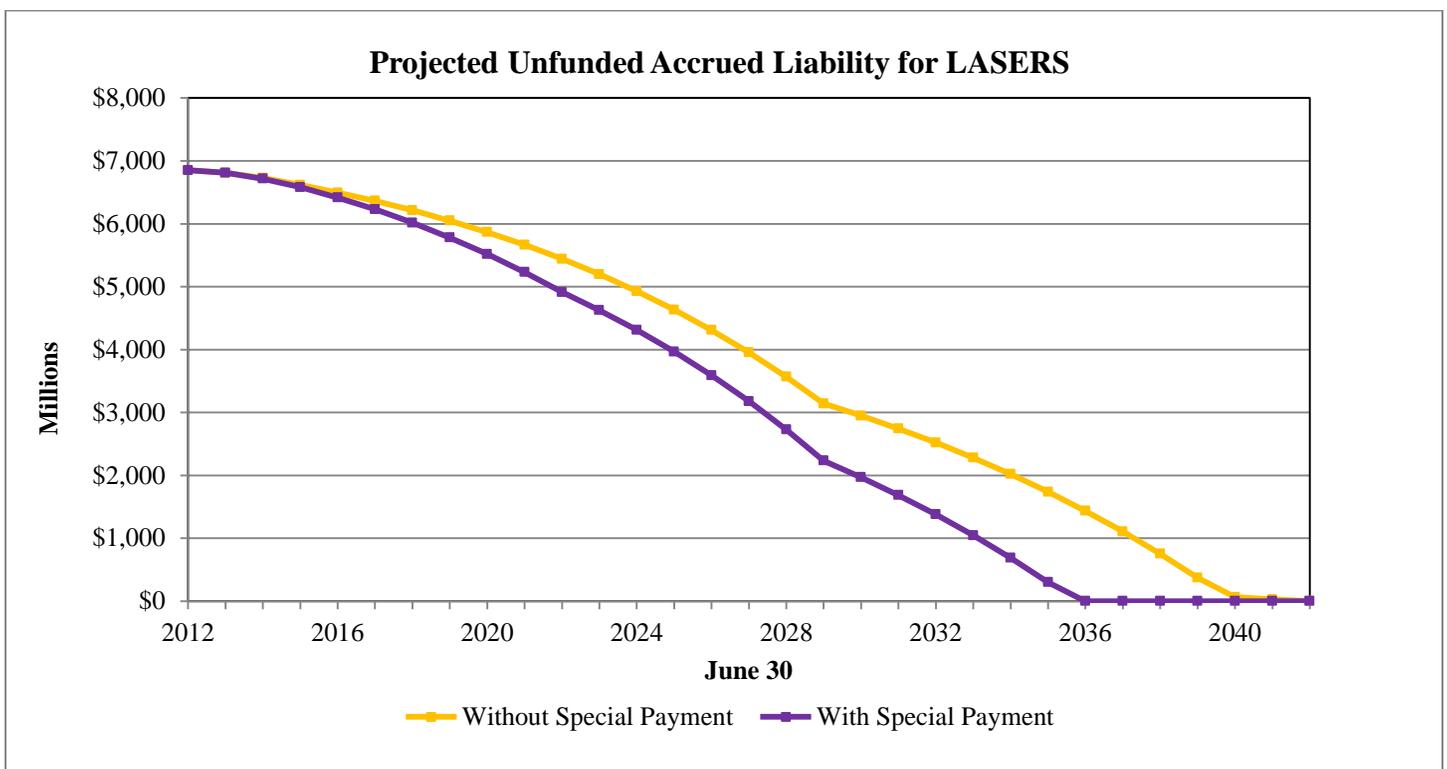
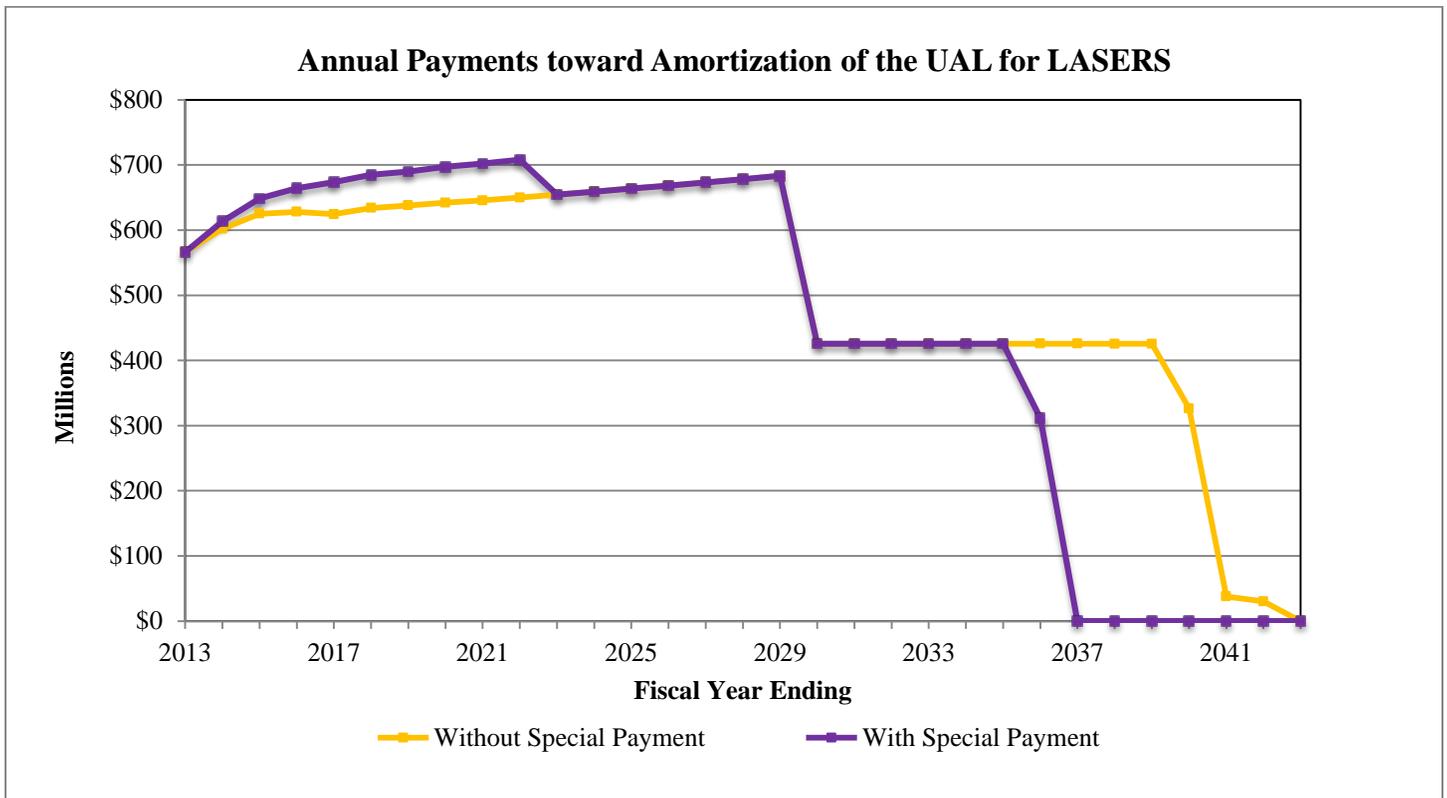
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Additional Employee Contributions That Will Be Used to Reduce the UAL

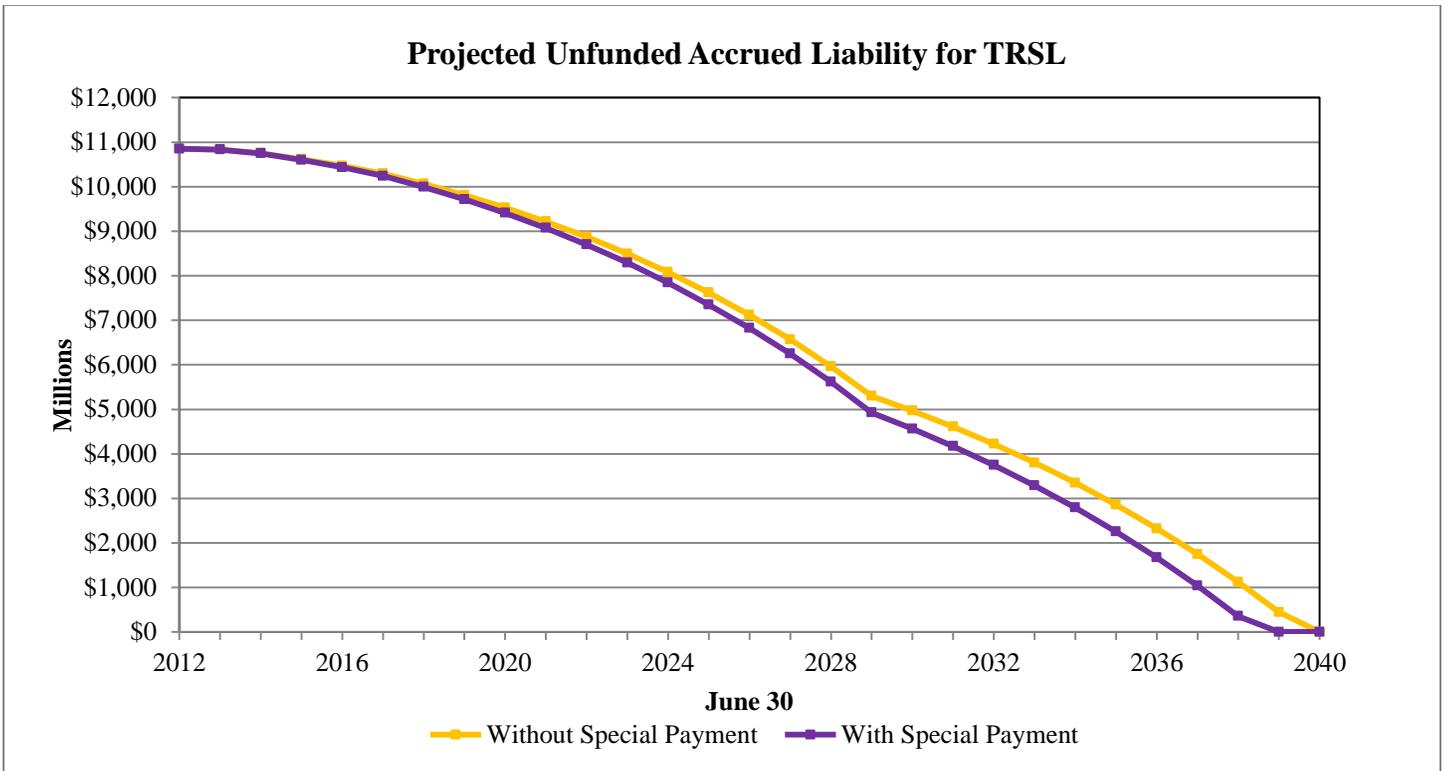
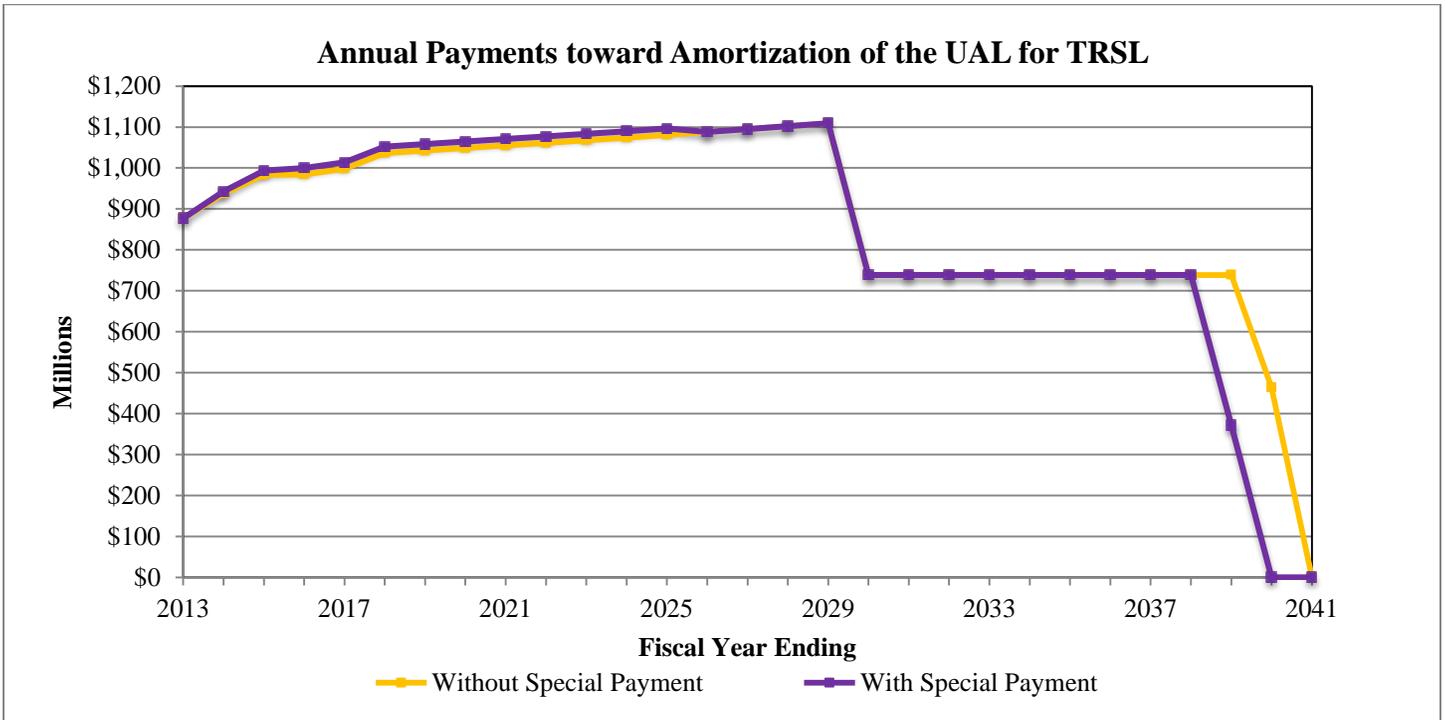
Fiscal Year	LASERS	TRSL	Total
2012-13	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
2103-14	0.0 million	0.0 million	0.0 million
2014-15	11.3 million	2.3 million	13.6 million
2015-16	22.6 million	4.5 million	27.1 million
2016-17	33.9 million	6.8 million	40.7 million
2017-18*	45.2 million	9.0 million	54.2 million

* These contributions will increase gradually as payroll costs increase over time. These contributions will cease when the retirement systems becomes 80% funded.

Under SB 52, additional employee contributions net of refunds will be used to reduce the UAL for LASERS and TRSL. Annual payments toward with UAL with and without the special employee contributions are shown below.



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The following conclusions can be drawn from these charts.

LASERS:

1. Our projections show that LASERS will attain 80% funding in FY 2025 without the additional member contributions being made.
2. If SB 52 is passed, LASERS will attain 80% funding in FY 2023, two years earlier.
3. It is expected that additional contributions from affected LASERS members will be required for about 9 years once they begin in FY 2015.
4. If SB 52 is enacted, the UAL for LASERS will be paid off 6 years earlier than it would have otherwise.

TRSL:

1. Our projections show that TRSL will attain 80% funding in FY 2025 without the additional member contributions being made.
2. If SB 52 is passed, TRSL will attain 80% funding in FY 2025. The 80% goal will not be attained any sooner than it would have been without SB 52.
3. It is expected that additional contributions from affected TRSL members will be required for about 11 years once they begin in FY 2015.

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4. If SB 52 is enacted, the UAL for TRSL will be paid off one year earlier than it would have otherwise.

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) 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, because implementation will be delayed until after constitutionality issues have been resolved by the courts.

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 the General Fund will increase about \$200,000 in FY 2013 to the extent that the Division of Administration engages a third actuary to prepare valuations for LASERS and TRSL to be considered for adoption by PRSAC.
4. 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.
5. 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.

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.

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.

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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 \$2,250 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