2013 REGULAR SESSION
ACTUARIAL NOTE HB 46

House Bill 46 HLS 13RS-333
Reengrossed with Senate Retirement Committee Amendment #1984

Author: Representative Edward J. Price
Date: May 15, 2013

LLA Note HB 46.04

Organizations Affected:
Louisiana School Employees' Retirement System

RE1 +$12,000,000 APV

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 46 provides compliance with the requirements of R.S. 24:521.

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__Bill Header:__ RETIREMENT/COLAS: Authorizes a cost-of-living adjustment for certain retirees of the La. School Employees' Retirement System and their beneficiaries.

__Cost Summary:__

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the ***actuarial present value of future benefit payments***. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

Actuarial Cost/(Savings) to Retirement Systems and OGB	$12,000,000
Total Five Year Fiscal Cost	
Expenditures	$8,000,000
Revenues	$0

__Estimated Actuarial Impact:__

The chart below shows the estimated change in the ***actuarial present value of future benefit payments***, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

__Actuarial Cost/(Savings) to:__	__Change in the Actuarial Present Value__
All Louisiana Public Retirement Systems	$12,000,000
Other Post Retirement Benefits	$0
Total	$12,000,000

__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. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	8,000,000
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	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 1,600,000	$ 8,000,000

REVENUES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0

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<u>**Bill Information:**</u>

Current Law

Under current law, a retiring member of LSERS may select from several optional forms of payment including a life annuity benefit or a reduced benefit that provides for benefit payments to continue to a beneficiary following the retiree's death.

Current law generally provides for benefits for certain survivors of deceased members who die while in active employment prior to retirement.

Current law generally provides for an Experience Account for LSERS in which investment gains are accumulated. Funds in the Experience Account may then be used to finance cost-of-living adjustments (COLAs) as authorized under existing law. COLAs require the approval of the LSERS board of trustees, the actuary for the Legislative Auditor, and the legislature. Any COLA granted will become effective on the July 1 following the legislative session approving such increase.

Under current law, COLAs are given to certain retirees, beneficiaries, and survivors of LSERS. The following persons are eligible:

1. Any retiree who meets all of the following criteria:

    a. He has received a retirement benefit for at least 1 year.

    b. He is at least 60 years of age.

    c. He is a member of Tier 1.

2. Any beneficiary of a retiree who would have met the above criteria if he were still alive.

The maximum benefit increase is limited to the lesser of 3% of his annual pension or the amount of increase in the CPI-U for the prior year.

Proposed Law

HB 46 permits, but does not mandate, the LSERS board of trustees, the actuary for the Legislative Auditor, and the legislature to approve a one-time cost-of-living adjustment in accordance with the following:

1. The following persons will be eligible:

    a. Any retiree who meets all criteria under current law and one of the following:

        1) He retired prior to July 1, 2001.

        2) He entered DROP prior to July 1, 2001, and retired prior to July 1, 2012.

    b. Any beneficiary of a retiree who met the above criteria if he were still alive.

2. The maximum benefit increase permitted under HB 46 is 3.75% of his annual pension.

3. Such an increase may become effective on July 1, 2013.

HB 46 requires the actuary for the Legislative Auditor to review the determination of the system's actuary regarding the funding of the cost-of-living adjustment. The one-time cost-of-living adjustment is prohibited from being granted until the actuary for the Legislative Auditor and the actuary for the system agree on a determination. Such an increase shall not exceed the funds in the Experience Account.

Implications of the Proposed Changes

HB 46 authorizes a one-time cost-of-living adjustment to retirees and beneficiaries and survivors who have attained the status of retiree as of June 30, 2012, and who satisfy other age and length of retirement criteria.

<u>**Cost Analysis:**</u>

Analysis of Actuarial Costs

Retirement Systems

Although HB 46 is enabling legislation and does not mandate a cost-of-living adjustment, we assume for the purposes of this note that the LSERS board of trustees, the actuary for the Legislative Auditor, and the legislature will approve the one-time adjustment that has been specified in HB 46 that will occur on July 1, 2013.

LSERS incurred an investment gain during FYE 2012. As a result, 50% of those investment gains, or $11,641,275 was deposited into the Experience Account on June 30, 2012. To account for this transfer of assets out of the regular pool of assets, an amortization charge for LSERS was established. Employer contributions will be $950,675 larger for the next 30 years than they would have been otherwise.

The value of the LSERS Experience Account on June 30, 2012, will have increased or decreased depending on investment earnings between July 1, 2012, and June 30, 2013. For the purpose of this actuarial analysis, we will assume the value of the Experience Account on June 30, 2013, will be $12,000,000. The present value of any cost-of-living adjustment approved as a result of the enactment of HB 46 must be less than this amount.

The effects of HB 46 on actuarial costs are summarized below assuming the entire amount in the Experience Account on June 30, 2013, will be used to provide cost-of-living adjustments.

1. The actuarial present value of future benefits (APV) for LSERS will increase about $12,000,000 if the COLA identified in HB 46 is granted.

2. The actuarial accrued liability of LSERS will increase $12,000,000.

3. The LSERS unfunded accrued liability will not change because $12,000,000 of assets will be transferred from the Experience Account back to the LSERS regular asset pool.

4. Employer normal costs will not change.

5. Employer contribution requirements will not change. Employer contribution requirements relative to amortization costs increased when 50% of investment gains were transferred from the regular asset pool to the Experience Account on June 30, 2012.

It is important to note that fifteen years from now, there will be very few retirees receiving the benefit increase authorized by HB 46 because most of these retirees will have died. However, employers participating in LSERS will still have to contribute $950,675 per year for yet another 15 years. Employers will be contributing to LSERS for a 30 year period, and many years beyond which anyone will be receiving the benefit so authorized.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 46 for the post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 46 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from State General Funds will not change. HB 46 has no effect on the rules for funding the Experience Account. It only affects benefits payable from the account. Therefore, employer contribution requirements will not change.

2. Expenditures from LSERS (Agy Self-Generated) will increase because benefit payments will be larger when a COLA is granted. Benefit payments in each of the next 5 years are estimated to be $1,600,000 larger than they would have been without regard to HB 46.

3. Expenditures from Local Funds will not change because employer contribution requirements will not change, except for the increase that occurred in prior years when investment gains were transferred out of the regular asset pool.

Revenues:

- LSERS revenues (Agy Self-Generated) will not change because employer contribution requirements will not change.

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	House
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[ ] 6.8(F) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change