2014 REGULAR SESSION
ACTUARIAL NOTE SB 26

Senate Bill 26 SLS 14RS-174 **Original** **Author: Senator Elbert L. Guillory** **Date: March 30, 2014** **LLA Note SB 26.01** **Organizations Affected:** **State Retirement Systems** **OR NO IMPACT APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 26 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT SYSTEMS. Provides for the assessment of employer contributions to fund certain administrative expenses (6/30/14)

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	$0
Total Five Year Fiscal Cost	
Expenditures	$196,976,419
Revenues	$196,976,419

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:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

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	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	$ 30,199,219	$ 29,042,657	$ 27,636,484	$ 26,186,104	$ 113,064,464
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	22,412,660	21,554,307	20,510,701	19,434,287	83,911,955
Annual Total	$ 0	$ 52,611,879	$ 50,596,964	$ 48,147,185	$ 45,620,391	$ 196,976,419

REVENUES	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	52,611,879	50,596,964	48,147,185	45,620,391	196,976,419
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	$ 52,611,879	$ 50,596,964	$ 48,147,185	$ 45,620,391	$ 196,976,419

Bill Information:

Current Law

The actuarially required employer contribution for the four state retirement systems – Louisiana State Employees' Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), Louisiana School Employees' Retirement System (LSERS), and Louisiana State Police Retirement System (STPOL) − is defined as the sum of the following:

1. The employer normal cost,

2. The annual amortization payment necessary to amortize changes in unfunded accrued liabilities occurring in prior years,

3. The annual amortization payment necessary to amortize the most recent year's over or underpayment of employer contributions, and

4. The annual amortization payment necessary to amortize changes in unfunded accrued liabilities resulting from gains/losses, asset valuation method changes, changes in actuarial assumptions or funding methods, and benefit changes occurring over the most recent year.

Because the formula for employer contributions does not include any provision for their recovery, administrative expenses produce an actuarial loss each year. Each annual loss is amortized over a 30 year period.

Proposed Law

SB 26 changes the formula to include projected annual administrative expenses in the calculation of employer contribution requirements.

Implications of the Proposed Changes

If SB 26 is enacted, estimated noninvestment related administrative expenses will be included in the calculation of employer contribution requirements.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 26 contains no benefit provisions.

Administrative expenses have been included in actuarial losses since 1990. Table 1 shows administrative expenses for LASERS and TRSL for each year since 1990. It also shows the amortization payment necessary to pay for the actuarial loss over 30 years and the cumulative payments that are currently being made. Table 2 shows a projection of administrative expenses through 2019. For example, LASERS administrative expense for 2000 was $10,242,213. This became an actuarial loss which was then amortized over 30 years with level payments of $842,398. The cumulative payment of all past losses attributable to administrative expenses was $5,575,617.

The process currently required by Louisiana law for administrative expenses can be summarized as follows:

1. Instead of paying administrative expenses each year, participating employers are allowed to borrow these costs from the retirement system and pay the system back over a 30 year period.

2. A new loan is taken out by employers each year for that year's expenses.

3. Eventually, employers will have 30 loans, each with an amortization payment.

4. After 30 years, the first loan made in 1990 is paid off, but participating employers obtain a new loan for the then current year administrative expenses.

5. Administrative expenses for 2013 for LASERS were $18,932,247. However, employers are now paying $23,749,891 in loan payments to the system relative to administrative expenses. Employers are paying 125% more in loan payments than they would have paid if they had paid for administrative expenses as they occurred.

6. The last loan payment for the 1990 loan will be paid in 2019. At that time, 30 loan payments will cost participating employers of LASERS $34.1 million. Actual expenses will be only $22.6 million. Employer loan payments will be 151% larger than expenses.

7. The ratio of loan payments to administrative expenses will continue to grow thereafter, but will eventually stabilize at about 167%.

8. The ratio of loan payments to administrative expenses for TRSL is currently about 123%. It is projected to be about 149% in 2019 and will eventually level off at about 167%.

Table 1
Historical Analysis

	LASERS			TRSL		
Year	**Administrative Expense**	**Amortization Payment**	**Cumulative Payments**	**Administrative Expense**	**Amortization Payment**	**Cumulative Payments**
1990	$ 2,577,670	$ 212,007	$ 212,007	$ 3,464,997	$ 284,988	$ 284,988
1991	3,145,390	258,701	470,708	3,950,865	324,949	609,937
1992	3,494,170	287,387	758,095	5,246,970	431,551	1,041,488
1993	4,702,924	386,804	1,144,900	5,366,598	441,390	1,482,878
1994	5,724,497	470,826	1,615,726	10,732,502	882,723	2,365,601
1995	6,465,576	531,778	2,147,504	6,811,064	560,194	2,925,794
1996	6.668,955	548,506	2,696,010	7,344,398	604,059	3,529,854
1997	6,773,908	557,138	3,253,148	6,011,443	494,427	4,024,281
1998	9,205,446	757,126	4,010,274	6,705,255	551,491	4,575,772
1999	8,789,889	722,947	4,733,221	7,044,432	579,388	5,155,160
2000	10,242,213	842,398	5,575,617	7,733,666	636,076	5,791,235
2001	13,872,637	1,140,991	6,716,610	8,655,615	711,904	6,503,139
2002	16,964,656	1,395,303	8,111,913	9,361,965	769,999	7,273,138
2003	11,829,437	972,943	9,084,856	11,178,783	919,428	8,192,567
2004	13,424,318	1,104,118	10,188,974	11,385,025	936,391	9,128,958
2005	18,634,313	1,532,628	11,721,602	12,717,185	1,045,958	10,174,916
2006	16,041,572	1,319,381	13,040,983	13,831,845	1,137,636	11,312,553
2007	15,784,050	1,298,201	14,339,184	14,370,760	1,181,961	12,494,513
2008	20,342,656	1,673,135	16,012,319	18,498,003	1,521,417	14,015,930
2009	19,623,966	1,614,025	17,626,344	19,321,250	1,589,127	15,605,057
2010	18,897,997	1,554,315	19,180,659	19,100,619	1,570,981	17,176,038
2011	18,181,272	1,495,366	20,676,025	18,189,491	1,496,042	18,672,080
2012	18,441,062	1,516,734	22,192,759	18,864,917	1,551,595	20,223,675
2013	18,932,247	1,557,132	23,749,891	17,661,969	1,452,655	21,676,330

Table 2
Prospective Analysis

	LASERS			TRSL		
Year	**Administrative Expense**	**Amortization Payment**	**Cumulative Payments**	**Administrative Expense**	**Amortization Payment**	**Cumulative Payments**
2014	$ 19,500,214	$ 1,603,846	$ 25,353,738	$ 18,191,828	$ 1,496,235	$ 23,172,564
2015	20,085,220	1,651,962	27,005,699	18,737,583	1,541,122	24,713,686
2016	20,687,777	1,701,520	28,707,220	19,299,710	1,587,355	26,301,041
2017	21,308,410	1,752,566	30,459,786	19,878,701	1,634,976	27,936,017
2018	21,947,662	1,805,143	32,264,929	20,475,062	1,684,025	29,620,042
2019	22,606,092	1,859,297	34,124,226	21,089,314	1,734,546	31,354,588

SB 26 will stop the loan process. Estimated administrative expenses for FYE 2016 and later years will be included in the calculation of the employer contribution rate. However, employers will still have to pay off the loans that have been made to date. A projection for LASERS and TRSL of the fiscal costs associated with SB 26 is shown below in Table 3.

Table 3
Fiscal Cost Analysis

	LASERS			TRSL		
FYE	**Current Law**	**SB 26**	**Increase / (Decrease)**	**Current Law**	**SB 26**	**Increase / (Decrease)**
2015	$ 25,353,738	$ 25,353,738	$ 0	$ 23,172,564	$ 23,172,564	$ 0
2016	27,005,669	50,882,090	23,876,391	24,713,686	46,988,066	22,274,380
2017	28,707,220	51,499,723	22,792,503	26,301,041	47,891,840	21,590,799
2018	30,459,786	52,141,975	21,682,189	27,936,017	48,488,201	20,552,184
2019	32,264,929	52,800,405	20,535,476	29,620,042	49,102,453	19,482,411
Total	$ 143,791,372	$ 232,677,931	$ 88,886,559	$ 131,743,350	$ 215,643,124	$ 83,899,774

We estimate administrative expenses for LSERS and STPOL are about 14% of administrative expense for LASERS and TRSL. Therefore the fiscal cost for the next five years for all state systems combined is shown below in Table 4.

Table 4
Allocation of Fiscal Costs to the General Fund and to Local Funds

FYE	Increase / (Decrease) LASERS	TRSL	Total	Factor	Total Increase / (Decrease)	General Fund	Local Funds
2015	$ 0	$ 0	$ 0	1.14	$ 0	$ 0	$ 0
2016	23,876,391	22,274,380	46,150,771	1.14	52,611,879	30,199,219	22,412,660
2017	22,792,503	21,590,799	44,383,302	1.14	50,596,964	29,042,657	21,554,307
2018	21,682,189	20,552,184	42,234,373	1.14	48,147,185	27,636,484	20,510,701
2019	20,535,476	19,482,411	40,017,887	1.14	45,620,391	26,186,104	19,434,287
Total	$ 88,886,559	$ 83,899,774	$ 172,786,333	1.14	$ 196,976,419	$ 113,064,464	$ 83,911,955

If SB 26 is enacted, no new loans will be given and beginning in in 2020 old loans will be liquidated one year at a time. By 2044, the only amount that will be included in employer contribution requirements relative to administrative expenses will be the administrative expenses as they occur. All loans made through 2014 will be liquidated.

Other Post-Employment Benefits

There are no actuarial costs or savings associated with SB 26 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 26 will have the following effect on fiscal costs:

Expenditures:

1. Expenditures from the General Fund will increase because employer contribution requirements will increase during the five year measurement period.

2. Local Fund expenditures will increase because employer contribution requirements will increase during the five year measurement period.

Revenues:

- LASERS, TRSL, LSERS and STPOL revenues will increase because employer contribution requirements will increase during the five year measurement period.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in SB 26 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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 to render the actuarial opinion contained herein.

Dual Referral:

Senate

[x] 13.5.1: Annual Fiscal Cost ≥ $100,000

[ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000

House

[x] 6.8(F)(1): Annual State Fiscal Cost ≥ $100,000

[ ] 6.8(F)(2): Annual State Revenue Reduction ≥ $100,000

[ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000