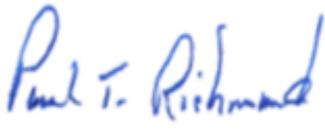


**2014 REGULAR SESSION
ACTUARIAL NOTE SB 26**

<p>Senate Bill 26 SLS 14RS-174 Engrossed Revised</p> <p>Author: Senator Elbert L. Guillory</p> <p>Date: May 15, 2014</p> <p>LLA Note SB 26.02</p> <p>Organizations Affected: State Retirement Systems</p> <p>EG NO IMPACT APV</p>	<p>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.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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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	\$195,977,302
Revenues	\$195,977,302

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.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
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	\$ 30,170,145	\$ 28,808,736	\$ 27,406,484	\$ 25,962,666	\$ 112,348,031
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	22,420,183	21,431,282	20,412,715	19,365,091	83,629,271
Annual Total	\$ 0	\$ 52,590,328	\$ 50,240,018	\$ 47,819,199	\$ 45,327,757	\$ 195,977,302

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	52,590,328	50,240,018	47,819,199	45,327,757	195,977,302
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	\$ 52,590,328	\$ 50,240,018	\$ 47,819,199	\$ 45,327,757	\$ 195,977,302

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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. SB 26 will be implemented for the state retirement systems beginning with the June 30, 2014, valuations.

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, TRSL, LSERS, and STPOL 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%.

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**Table 1
Historical Analysis**

FYE	LASERS			TRSL		
	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

FYE	LSERS			STPOL		
	Administrative Expense	Amortization Payment	Cumulative Payments	Administrative Expense	Amortization Payment	Cumulative Payments
1990	1,306,607	100,654	100,654	133,260	10,036	10,036
1991	941,919	72,560	173,214	185,990	14,008	24,044
1992	1,164,819	89,731	362,946	142,185	10,709	34,753
1993	1,326,333	102,174	365,119	156,736	11,804	46,557
1994	1,218,375	93,857	458,976	160,231	12,068	58,625
1995	1,286,575	99,111	558,087	220,716	16,623	75,248
1996	1,741,965	134,192	692,279	200,659	15,113	90,360
1997	1,737,126	133,819	826,098	225,535	16,986	107,347
1998	1,820,670	140,255	966,352	325,858	24,542	131,888
1999	2,236,188	172,264	1,138,616	370,652	27,915	159,804
2000	2,285,482	176,061	1,314,677	372,549	28,058	187,862
2001	2,588,233	199,384	1,514,061	396,623	29,871	217,733
2002	2,366,271	182,285	1,696,345	419,195	31,571	249,305
2003	2,568,368	197,853	1,894,199	444,651	33,489	282,794
2004	2,782,636	214,359	2,108,558	429,177	32,323	315,117
2005	3,259,996	251,133	2,359,691	416,736	31,386	346,503
2006	3,410,071	262,693	2,622,384	415,344	31,281	377,784
2007	3,715,526	286,224	2,908,608	432,781	32,595	410,379
2008	4,836,712	372,594	3,281,202	575,536	43,346	453,725
2009	4,648,077	358,063	3,639,265	587,347	44,236	497,961
2010	4,486,892	345,646	3,984,911	558,408	42,056	540,017
2011	4,701,196	362,155	4,347,066	557,328	41,975	581,992
2012	4,670,155	359,764	4,706,829	541,505	40,783	622,775
2013	4,526,181	348,673	5,055,502	574,173	43,243	666,018

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**Table 2
Prospective Analysis**

FYE	LASERS			TRSL		
	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

FYE	LSERS			STPOL		
	Administrative Expense	Amortization Payment	Cumulative Payments	Administrative Expense	Amortization Payment	Cumulative Payments
2014	\$ 4,661,966	\$ 359,133	\$ 5,414,635	\$ 591,398	\$ 44,541	\$ 710,559
2015	4,801,825	369,907	5,784,541	609,140	45,877	756,436
2016	4,945,880	381,004	6,165,545	627,414	47,253	803,689
2017	5,094,256	392,434	6,557,979	646,236	48,671	852,360
2018	5,247,084	404,207	6,962,187	665,623	50,131	902,491
2019	5,404,497	416,333	7,378,520	685,592	51,635	954,126

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**

FYE	LASERS			TRSL		
	Current Law	SB 26	Increase / (Decrease)	Current Law	SB 26	Increase / (Decrease)
2015	\$ 25,353,737	\$ 25,353,737	\$ 0	\$ 23,172,564	\$ 23,172,564	\$ 0
2016	27,005,699	50,882,090	23,876,391	24,713,686	46,988,066	22,274,380
2017	28,707,219	51,502,723	22,795,504	26,301,041	47,567,057	21,266,016
2018	30,459,785	52,141,975	21,682,190	27,936,017	48,163,418	20,227,401
2019	32,264,928	52,800,405	20,535,477	29,620,042	48,777,670	19,159,628
Total	\$ 143,791,368	\$ 232,677,930	\$ 88,889,562	\$ 131,743,350	\$ 214,668,775	\$ 82,927,425

FYE	LSERS			STPOL		
	Current Law	SB 26	Increase / (Decrease)	Current Law	SB 26	Increase / (Decrease)
2015	\$ 5,414,635	\$ 5,414,635	\$ 0	\$ 710,559	\$ 710,559	\$ 0
2016	5,784,542	11,498,940	5,714,398	756,436	1,481,595	725,159
2017	6,165,546	11,647,316	5,481,770	803,689	1,500,417	696,728
2018	6,557,980	11,800,144	5,242,164	852,360	1,519,804	667,444
2019	6,962,187	11,957,557	4,995,370	902,491	1,539,773	637,282
Total	\$ 30,884,890	\$ 52,318,592	\$ 21,433,702	\$ 4,025,535	\$ 6,752,148	\$ 2,726,613

We have assumed that TRSL administrative expenses will be allocated to K-12 and Higher Education based on relative payrolls. Although this is the assumption we have made, other methods of allocating TRSL expenses may also be valid. Using our method, 75% of TRSL administrative expenses have been allocated to K-12 and 25% to Higher Education.

Allocations of fiscal costs to the General Fund and to Local Funds are shown below.

**Table 4
Allocation of Increase/(Decrease) in Fiscal Costs to the General Fund**

FYE	LASERS	TRSL Higher Ed	STPOL	Total
2015	\$ 0	\$ 0	\$ 0	\$ 0
2016	23,876,391	5,568,595	725,159	30,170,145
2017	22,795,504	5,316,504	696,728	28,808,736
2018	21,682,190	5,056,850	667,444	27,406,484
2019	20,535,477	4,789,907	637,282	25,962,666
Total	\$ 88,889,562	\$ 20,731,856	\$ 2,726,613	\$ 112,348,031

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Allocation of Increase/(Decrease) in Fiscal Costs to Local Funds

FYE	TRSL K-12	LSERS	Total
2015	\$ 0	\$ 0	\$ 0
2016	16,705,785	5,714,398	22,420,183
2017	15,949,512	5,481,770	21,431,282
2018	15,170,551	5,242,164	20,412,715
2019	14,369,721	4,995,370	19,365,091
Total	\$ 62,195,569	\$ 21,433,702	\$ 83,629,271

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. Expenditures from Local Funds will increase because employer contribution requirements will increase during the five year measurement period.

Revenues:

- LASERS, TRSL, LSERS and STPOL (Agy Self-Generated) 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 necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

- 13.5.1: Annual Fiscal Cost ≥ \$100,000
- 13.5.2: Annual Tax or Fee Change ≥ \$500,000

House

- 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