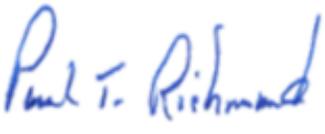


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 44**

| | |
|---|---|
| <p>House Bill 44 HLS 14RS-445 Original</p> <p>Author: Representative J. Kevin Pearson</p> <p>Date: April 4, 2014</p> <p>LLA Note HB 44.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR -\$756,394,593 FC LF EX</p> | <p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 44 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/TEACHERS: Requires application of minimum foundation program formula funds to the unfunded accrued liability of the Teachers' Retirement System of Louisiana

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 | \$(3,781,972,965) |
| Revenues | \$(3,781,972,965) |

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: | <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 | \$ 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 | (756,394,593) | (756,394,593) | (756,394,593) | (756,394,593) | (756,394,593) | (3,781,972,965) |
| Annual Total | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$(3,781,972,965) |

| 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 | 0 | 0 | 0 | 0 | 0 |
| Stat Deds/Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Local Funds | (756,394,593) | (756,394,593) | (756,394,593) | (756,394,593) | (756,394,593) | (3,781,972,965) |
| Annual Total | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$ (756,394,593) | \$(3,781,972,965) |

2014 REGULAR SESSION ACTUARIAL NOTE HB 44

Bill Information:

Current Law

Under current law, the Louisiana Department of Education (LDOE) supports public elementary and secondary education through the Minimum Foundation Program (MFP). Each local school board combines its MFP allocation with its other revenues. Employer contributions to the Teachers' Retirement System of Louisiana (TRSL) are paid from total revenues of each individual school district. These contributions are generally remitted to TRSL on a bi-weekly, bi-monthly, or monthly basis.

Proposed Law

Amortization costs are shared between K-12 public schools and higher education. Under HB 44, the LDOE will deduct 100% of K-12 employer contributions associated with all unfunded accrued liabilities from the total MFP grant before it is allocated to individual school districts. The LDOE will send this amount directly to TRSL. TRSL will reduce the employer contribution rate for K-12 to reflect this direct payment by the LDOE.

HB 44 specifies that for the purposes of GASB 68, the state will be a non-employer contributing entity. The state will actually be a non-employer contributing entity with a special funding situation. Therefore, for accounting purposes, the UAL will be treated as a liability of the state. However, although HB 44 will require the state to make contributions to TRSL on behalf of school districts and must record a liability for the UAL, the bill provides that it does not assume any legal liability for the unfunded accrued liability of the retirement system beyond that which is already specified in the Louisiana constitution.

Implications of the Proposed Changes

If HB 44 is enacted, K-12's portion of all amortization payments will be paid directly by the LDOE instead of individual school districts.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 44 has no effect on future benefit payments or on the actuarial present value of future benefits.

Our analysis of HB 44 is summarized below.

1. TRSL's total amortization payment for FYE 2015 is \$1,011,853,415. K-12's portion of the payment is \$756,394,593.
2. The projected payroll for K-12 for FYE 2015 is \$3,332,248,390.
3. If LDOE pays K-12's portion of the total amortization payment, the employer contribution rate applicable to school districts would decrease 22.6992%. The 28.0% employer contribution rate for K-12 teachers would decrease to 5.3% of pay.

HB 44 could potentially shift a portion of amortization costs from school districts to charter schools. Charter schools receive revenue from the MFP. Taking amortization payments directly from the MFP will reduce the amount that may be left to spread among all schools including charters. This shift will occur if the proportionate share of each school after the deduction of the amortization payment remains the same as the proportionate share before such deduction.

Other Post-Employment Benefits

There are no actuarial costs or savings associated with HB 44 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 44 will have the following effects on cash flows during the five year fiscal cost measurement period.

Expenditures:

1. Expenditures from the General Fund will not change. A portion of MFP funds that would otherwise be paid to school districts would be paid instead to TRSL.
2. Expenditures from the General Fund relative to higher education would not change. The employer contribution rate applicable to higher education will not change.
3. Expenditures from TRSL (Agy Self-Generated) will not change.
4. Expenditures from Local Funds will decrease \$756,394,593 a year. School districts will no longer be responsible for paying toward amortization costs.

**2014 REGULAR SESSION
ACTUARIAL NOTE HB 44**

Revenues:

1. TRSL revenues (Agy Self-Generated) will not change. Employer contributions that would otherwise be collected from school districts will instead be collected from the LDOE.
2. Local Fund revenues will decrease \$756,394,593 a year. MFP payments to local school districts from the LDOE will be reduced by \$756,394,593 a year.

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 HB 44 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 \geq \$100,000
- 13.5.2: Annual Tax or Fee Change \geq \$500,000

House

- 6.8(F)(1): Annual State Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq \$500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000