2014 REGULAR SESSION
ACTUARIAL NOTE SB 16

Senate Bill 16 SLS 14RS-70 Reengrossed with Senate Floor Amendment #1871 Revised (2) **Author: Senator Guillory, et. al.** **Date: April 29, 2014** **LLA Note SB 16.03** **Organizations Affected:** **State Police Retirement System** **RE +$9,474,040 APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 16 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: STATE POLICE RET FUND. Grants a permanent benefit increase to eligible retirees in accordance with statutory procedure (2/3 - CA10s29 (F)) (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	$9,474,040
Total Five Year Fiscal Cost	
Expenditures	See Below
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:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$9,474,040
Other Post Retirement Benefits	$0
Total	$9,474,040

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. 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	See Below	See Below	See Below	See Below	See Below	See Below
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	See Below	See Below	See Below	See Below	See Below	See Below

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	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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<u>Bill Information:</u>

Current Law

Article 10(29)(F), enacted by the legislature and the voters in 2010, states "Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment. No such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature." Based on our reading of the amendment, our discussions with General Counsel for the LLA, and our discussions with legislative staff, we have concluded for the purposes of this actuarial note, that future transfers of investment gains to the Experience Account will occur until the balance in the Experience Account is equal to the cost of a 6% benefit increase for eligible retirees. However, because future COLA grants will require the introduction of a bill, approval by two-thirds of the House and Senate, and the signature of the governor, we assume that COLA grants are ad hoc, and are not automatic.

Current law provides a legal template that the legislature may choose to adopt in the enactment of permanent benefit increases (PBI). This template specifies eligibility criteria, which is generally age 60 with one year of retirement, and the basis for the amount of a PBI grant, which is the CPI-U. There is no requirement that PBI legislation follow the template. Nor is there any guarantee that PBIs in the future will even be based on the balance in the Experience Account.

The PBI template provides the following:

Eligibility:

The following retirees and beneficiaries of the Louisiana State Police Retirement System (STPOL) will be eligible for a PBI.

1. Each retiree who satisfies all of the following criteria on June 30, 2014:

    a. Has received a benefit for at least one year, and
    b. Has attained at least age 60.

2. Each non-retiree beneficiary (including each survivor of a deceased active member) receiving a benefit on June 30, 2014, who satisfies all of the following criteria:

    a. The deceased member or beneficiary or both combined have received benefits for at least one year, and
    b. The deceased member would have been at least age 60 had he lived.

3. Each disability retiree and each beneficiary who is receiving benefits based on the death of a disability retiree, who also on June 30, 2014, has been receiving benefits for at least one year.

Permanent Benefit Increase

- Based on the template law, each eligible retiree and beneficiary will be eligible for a 1.5% PBI on the portion of a retiree/beneficiary's benefit that is less than $94,313.

In addition to the PBI granted above, template law also provides for a 2.0% supplemental PBI for retirees age 65 and older. The supplemental PBI will be paid on the portion of a retiree/beneficiary's benefit that is less than $94,313.

Proposed Law

SB 16 provides that template law will apply effective June 30, 2014.

If any of the instruments which originated as SB 18, SB 19, SB 21, and HB 1225 of the 2014 Regular Session of the Legislature does not become effective, this Act shall be null and void and of no effect.

Implications of the Proposed Changes

As a result of SB 16, amounts in the STPOL Experience Account will be used to provide permanent benefit increases for eligible retirees and beneficiaries. The maximum increase for those under age 65 will be 1.5% x the current annual benefit and $1,414,70. The maximum increase for those age 65 and older will be 3.5% x the current annual benefit and $3,300.96.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

The actuarial present value of future benefits of STPOL will increase $9,474,040 million if SB 16 is enacted. Additional information is shown below.

	Regular PBI		Supplemental PBI		Total Liability Increase
Eligible Members	**Number**	**Liability**	**Number**	**Liability**	
Retirees Age 65 and Retired One Year	676	$ 3,301,000	440	$ 3,926,034	$ 7,227,035
Beneficiaries and Survivors	339	1,007,254	253	905,297	1,912,551
Disability Retirees	54	219,842	27	114,612	334,454
Total	1,069	$ 4,528,096	720	$ 4,945,943	$ 9,474,040

STPOL achieved significant investment gains for FYE 2013. As a result, a new charge base equal to $18,169,123 was established on June 30, 2013, and the same amount was then transferred from the Regular Benefit Account to the Experience Account on July 1, 2013. Employer amortization costs for the next 30 years will be $1,415,480 larger than they would have been otherwise.

The PBI to be granted on July 1, 2014, under SB 16 has a present value cost equal to $9,474,040. However, the balance in the Experience Account is significantly greater than the $9.5 million cost for the PBI and it is considered by the System that the PBI is fully funded. However:

1. Employers still have 29 years of amortization payments left in order to restore the Regular Benefit Account to its original position. The Experience Account is funded only because plan sponsors borrowed from the Regular Benefit Account to fund the Experience Account.

2. The average duration of the 1.5% PBI to be granted on July 1, 2014, is about 10 years. However, employers will be paying for the grant for the next 29 years.

The method described above has been used by the state retirement systems since 1992 when the Experience Account and PBIs were originally enacted for LASERS and TRSL. The method was appropriate in 1992 based on prevailing Louisiana law, actuarial standards of practice, and other factors long lost to history. But in our opinion, the method should be reexamined in order to accommodate current law, current actuarial standards of practice and current needs of the state.

There is no consensus about whether a change in method can be made without legislation. For this reason, the actuarial note for this bill has been revised to reflect current system practices.

Therefore:

1. The actuarial present value of future benefit payments will increase $9,474,040 as a result of SB 16.

2. The Experience Account has sufficient funds to offset the cost of the PBI under SB 16.

3. Because a charge base has already been established to amortize the cost over 30 years a new base is not needed.

4. SB 16 will have no effect on the General Fund or Local Funds during the five year measurement period.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 16 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 16 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will not change.

2. Expenditures from STPOL (Agy Self-Generated) will increase beginning FYE 2015 as larger pension benefits are distributed. There will be an outflow of funds from the System for the PBI payments to eligible retirees and beneficiaries in the following amounts by year.

Fiscal Year	Increase in STPOL Expenditures
2014-15	$ 867,979
2015-16	835,154
2016-17	799,180
2017-18	761,996
2018-19	726,215
Total	$ 3,990,523

3. Expenditures from Local Funds will not change.

Revenues:

- STPOL revenues (Agy Self-Generated) will not change. Assets in the Experience Account will be transferred to the Regular Benefit Account to cover the additional liability associated with the enactment of SB 16.

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.

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Actuarial Caveat

There is nothing in SB 16 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	House
[x] 13.5.1: Annual Fiscal Cost ≥ $100,000	[ ] 6.8(F)(1): Annual State Fiscal Cost ≥ $100,000
[ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000	[ ] 6.8(F)(2): Annual State Revenue Reduction ≥ $500,000
	[ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000