2016 REGULAR SESSION
ACTUARIAL NOTE HB 46

House Bill 46 HLS 16RS-202 **Original** **Author: Representative Barry Ivey** **Date: April 20, 2016** **LLA Note HB 46.01** **Organizations Affected:** **State Retirement Systems** **OR NO IMPACT 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.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT BENEFITS: (Constitutional Amendment) Requires new hires enrolled in state retirement systems to share certain retirement costs equally with their employer.

<u>Cost Summary:</u>

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 to Retirement Systems	$0
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	$0

<u>Estimated Actuarial Impact:</u>

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 to:</u>	**<u>Change in the Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

<u>Estimated Fiscal Impact:</u>

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for the retirement systems and other government entities. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**5 Year Total**
State General Fund	$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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

Bill Information:

Current Law

The constitution of the state of Louisiana authorizes the legislature to establish retirement systems for teachers and other employees of K-12 school districts, state employees, and state police. It further states that membership in such a retirement system is a contractual relationship between the employee and employer, and the state shall guarantee benefits payable to a member, a retiree, or a member's beneficiary upon his death.

Article 10(29)(E)(2)(a) provides that the legislature will determine the employer contribution rate subject to the following:

1. Until the initial unfunded accrued liability (IUAL) is fully paid, the ratio of employee contributions to total contributions may not exceed the ratio that was in effect on January 1, 1987.

2. Once the IUAL is paid, employee contributions may not exceed employer contributions.

Rule #1 is potentially applicable to the Louisiana State Employees' Retirement System (LASERS) and the Teachers' Retirement System of Louisiana (TRSL) because the systems in all likelihood will have IUALs until June 30, 2029. Furthermore, to have an effect, the employer rate would have to fall below 11.7% for a fiscal year prior to or coinciding with FYE 2029.

Rule #2 is potentially applicable to the Louisiana School Employees Retirement System (LSERS) and the Louisiana State Police Retirement System (STPOL) because the IUAL of these systems has been paid off. Rule #2 will also be potentially applicable to LASERS and TRSL for FYE ending 2030 and later years because the IUALs for these systems will be fully paid on or before June 30, 2029. However, because all four systems have substantial UALs, it is not likely that Rule #2 will have an effect on employer contributions until the mid-2030s at the earliest.

Upon elimination of the UAL, employees and employers will share equally in the cost of pension benefits.

Proposed Law

If HB 46 is approved by the legislature and the voting residents of Louisiana, then the following rules will apply to members of a state retirement systems first employed on or after July 1, 2017.

1. The normal cost will be shared equally by the employer and the employee.

2. The UAL associated with an augmentation of a new member's benefit occurring during the new member's period of active service will be shared equally by the employer and the employee.

The provisions of HB 46 will not apply to COLAs granted to retirees or their beneficiaries regardless of when the retiree was first employed.

For the purpose of this actuarial note, we have assumed that the word "augmentation" has the same meaning as the word "improvement".

Implications of the Proposed Changes

Upon favorable passage by the electors of the state at a statewide election on November 8, 2016, members of the state retirement systems who are first employed on or after July 1, 2017, will share equally with their employer the normal cost of the retirement benefit and the cost of any debt attributable to certain benefit improvements.

Cost Analysis:

Analysis of Actuarial Costs

HB 46 does not contain any benefit provisions having an actuarial cost. If HB 46 is enacted and all other retirement legislation fails passage, then employee contributions for a member first employed on or after July 1, 2017 will be reduced and benefits paid upon termination of employment with less than 5 years of service will be smaller.

Retirement Systems

HB 46 will have no effect on employee and employer contribution requirements for the state systems relative to members first employed on or before June 30, 2017.

HB 46 will affect members of the state systems first employed on or after July 1, 2017 (new members). HB 46 does not affect the total actuarial cost relative to new members, but it does change the allocation of contributions between employers and employees. If HB 46 is enacted, new members of the state retirement systems and their employers will be required to share equally in the following costs:

1. The normal cost of the new member's retirement benefit.

2. The UAL attributable to benefit improvements affecting a new member as long as the improvement occurs while the new member is still active and contributing to the system.

As a result, employer contribution requirements will increase and employee contribution requirements will decrease.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 46 for post-employment 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. Total expenditures from the General Fund will increase because employer contribution rates will increase. However, these increases are not expected to be material during the 5-year measurement period.

2. Expenditures from the retirement systems (Agy Self-Generated) are expected to decrease because benefits payable to a new member who terminates employment during the 5-year measurement period are likely to be small to negligible.

3. Total expenditures from Local Funds will increase because employer contribution rates will increase. However, these increases are not expected to be material during the 5-year measurement period.

Revenues:

- Retirement system revenues (Agy Self-Generated) will not change. Employee contributions will decrease; employer contributions will increase; but the total contribution will remain the same.

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 adopted 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 46 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
☐ 13.5.1: Annual Fiscal Cost ≥ \$100,000	☐ 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ \$500,000	☐ 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ \$500,000