2017 REGULAR SESSION
ACTUARIAL NOTE HB 4

House Bill 4 HLS 17RS-351 **Original** **Author: Representative Blake Miguez** **Date: April 4, 2017** **LLA Note HB 4.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/TEACHERS: Provides relative to the reemployment of retired school nurses in positions covered by the Teachers' Retirement System of La.

Cost Summary:

The estimated actuarial and fiscal impact of HB 4 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the ***actuarial present value of future benefit payments***. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:		**Actuarial Cost**
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB		0
Other Government Entities		0
Total		Increase
	Fiscal Costs	
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits associated with the state retirement systems to be amortized over a period not to exceed ten years.

Bill Information:

Current Law

Current law suspends the benefits of a reemployed retired member of the Teachers' Retirement System of Louisiana (TRSL) unless he is reemployed in a Reemployment-Eligible Position which is defined as:

1. A position as a substitute classroom teacher in a school where a critical shortage exists;

2. A position assigned to instructing adults through an adult educational or literacy program administered through a public institution of elementary or secondary education, provided the instructor has a valid Louisiana teaching certificate; and

3. A position as an adjunct professor.

Benefits payable to a retiree reemployed in a Reemployment-Eligible Position are subject to the following suspension of benefit rules.

1. If a retiree is reemployed in a Reemployment-Eligible Position before the first anniversary of his original date of retirement, the retiree's benefit will be suspended until the earlier of the date he terminates reemployment and the first anniversary date of his original retirement. The retiree's income from employment is unlimited.

2. If a retiree is reemployed in a Reemployment-Eligible Position thereafter, the retiree may continue to work in the Reemployment-Eligible Position and earn an unlimited income from employment. However, his pension benefit will be reduced one dollar for each dollar he earns from employment that exceeds 25% of his original pension benefit. Once his pension benefit has been reduced to 25% of his original benefit no further benefit reduction will occur.

3. The benefits of a retiree who retired on or before June 30, 2010 and who is now returning to work for the first time will ***not*** be suspended.

Proposed Law

HB 4 adds the position of school nurse to the list of Reemployment-Eligible Positions.

Implications of the Proposed Changes

HB 4 permits a retired school nurse of TRSL to return to work and earn an income from employment that is unlimited. However, his original pension benefit will be reduced one dollar for each dollar that he earns in excess of 25% of his original pension. Therefore, the total income for a school nurse who returns to employment will be 100% of his employment earnings plus his original pension benefit reduced to an amount that is not less than 25% of the original pension benefit.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by the LLA)

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

As a result of HB 4, the actuarial present value of future benefits payable from TRSL is estimated to increase. Our analysis is summarized below.

a. *Category A: Retired Nurse Is Already Reemployed*

A school nurse has been retired for a year or more and has already returned to work on a full time basis. The most likely reasons he has returned to employment as a school nurse are:

1. He misses working as a nurse in the educational environment of a local school district, or
2. He has incurred a financial hardship that makes the extra income necessary.

Example

1. A school nurse has been retired for more than one year.
2. His unsuspended pension benefit is $30,000 a year. His suspended benefit under current law if $0.
3. He has already been reemployed.
4. His salary as a school nurse is $48,000 a year.

Benefits Payable by TRSL under Current Law

HB 4 is not enacted. The nurse continues to be reemployed and earns a salary of $48,000 per year. His pension from TRSL continues to be suspended. He receives no pension from TRSL for as long as he is reemployed.

Because he is not considered to be a “retired teacher” under current law, neither the reemployed school nurse nor his employer will make contributions to the system, and the reemployed school nurse will not accrue additional retirement benefits.

Benefits Payable by TRSL under HB 4

HB 4 is enacted. The nurse continues to be reemployed and earns a salary of $48,000 per year. $22,500 of his $30,000 annual pension will be suspended. TRSL will pay the nurse $7,500 a year in pension benefits. He will receive $7,500 a year from TRSL for as long as he is reemployed.

Because he is considered to be a “retired teacher” under HB 4, the reemployed school nurse and his employer will make contributions to the system, but the reemployed school nurse will not accrue additional retirement benefits. Upon subsequent termination of employment, the reemployed school nurse will receive a refund of his contributions without interest. Employer contributions will remain with the retirement system.

Conclusion

TRSL's pension expenditures will increase $7,500 a year with the enactment of HB 4. The system will collect contributions from both the school and the reemployed school nurse, with the employee contributions being refunded when the reemployed school nurse leaves active employment.

b. *Category B: Retired Nurse Is Induced to Become Reemployed as a Result of the Enactment of HB 4.*

A school nurse has been retired for a year or more. He misses employment in the K-12 environment. The primary reason he does not become reemployed is that his pension from TRSL will be completely suspended. However, if HB 4 is enacted, the $7,500 pension he will receive may be just enough to entice him to return to work.

Example

1. A school nurse has been retired for more than one year.
2. His unsuspended pension benefit is $30,000 a year.
3. His annual salary if he is reemployed will be $48,000.
4. He currently does not expect to return to employment.
5. He will seek reemployment if HB 4 is enacted.

Benefits Payable by TRSL under Current Law

HB 4 is not enacted. The nurse will remain retired. He will not be reemployed. He will receive no reemployment income. He will continue to collect a pension of $30,000 per year from TRSL. Obviously, no employee or employer contributions are payable to TRSL; nor does the school nurse, who remains retired, accrue any additional benefits.

Benefits Payable by TRSL under HB 4

HB 4 is enacted. The retired nurse elects to be reemployed on a full time basis. His annual income from employment will be $48,000. TRSL will pay the nurse $7,500 a year in pension benefits. This amount will be paid to the nurse by TRSL for as long as he continues to be reemployed.

With the enactment of HB 4, the reemployed school nurse becomes a "retired teacher". The reemployed retiree and his employer will contribute to the system; however the retiree will not accrue additional retirement benefits and his contributions will be refunded without interest when he terminates active service. The employer contributions will remain in the system.

Conclusion

TRSL's pension expenditures will decrease $22,500 a year with the enactment of HB 4.

c. *Statistical Analysis*

The cost of HB 4 depends on the number and demographic characteristics of retired nurses in Categories A and B. HB 4 will have an actuarial cost if there are more than three reemployed retired nurses in Categories A for every one reemployed retired nurse in Category C. In our opinion, we believe that the number of Category A nurses will exceed the number of Category B by more than a 3:1 margin.

Our analysis is based on the following information. Items 1 and 2 were provided by the Legislative Fiscal Office. Items 3 and 4 are based on our actuarial experiences.

1. There are about 1,400 school nurse positions in Louisiana.

2. The pool of retired school nurses is quite small. Only 23 members of the Louisiana School Nurses Organization were reemployed retirees in FYE 2016.

3. The incentive to become reemployed under HB 4 is not very large.

4. The *actuarial present value cost* resulting from HB 4 is likely to be small or negligible.

Answers to the following questions would have been useful to us in solidifying our conclusions, but were not available.

1. How many school nurse positions are vacant?
2. How many retired school nurses are there?
3. Of the retired school nurses, how many are between ages 60 and 70?
4. Of the retired school nurses, how many retired on or before June 30, 2010.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 4 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from retiree to employee. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 4.

2. Employer premium expenditures may increase or decrease as a result of HB 4.

3. Other Government Entities

The actuarial cost of HB 4 associated with government entities other than those identified in HB 4, is estimated to be $0. Our analysis is summarized in Section II; Subsection C..

B. <u>Actuarial Data, Methods and Assumptions</u>
(Prepared by the LLA)

Unless indicated otherwise, the actuarial note for HB 4 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The 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.

A. <u>Actuarial Caveat</u>
(Prepared by the LLA)

There is nothing in HB 4 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 4 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. <u>Estimated Fiscal Impact – Retirement Systems</u>
(Prepared by the LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase

The effects on retirement related fiscal costs or savings during the five year measurement period are shown in Table A and Items 2 and 3 below. A precise cost or savings cannot be determined because the actual cost or savings depends upon the age, service, and salary characteristics of retired school nurses who return to work and upon the ratio of nurses that continue reemployment to those who are induced to retire. The best information that can be given relative to retirement related fiscal costs or savings, based on the information available to us, is that costs will increase and that the increase in cost will be small; probably less than $100,000 a year.

2. Expenditures:

   a. Agy Self-Generated Expenditures will increase under HB 4 because TRSL will distribute more in benefits each year under HB 4 than it will under current law.

   b. Expenditures from Local Funds will increase under HB 4 because school districts will contribute more per year, on average, to TRSL with the enactment of HB 4 than would have been contributed under current law.

3. Revenues:

   a. TRSL revenues (Agy Self-Generated) will increase each year if HB 4 is enacted because school districts will contribute more per year to TRSL under HB 4 than would have been contributed under current law.

B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA)

1. Narrative

Table B shows the estimated fiscal impact of HB 4 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

The effects on OPEB related fiscal costs and revenues during the five year measurement period are shown below in Table B and Items 2 and 3.

OPEB Fiscal Cost: Table B

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

2. Expenditures:

Expenditures by local school districts for medical benefits may increase or decrease depending on the employment status of employees and/or retirees and whether retirees pay a larger or smaller percentage of the medical premium. Eventually, however, the reemployed retiree will re-retire and the retirees share of the insurance premium will be the same it would have been had the retiree not returned to work. The state does not maintain sufficient records to enable us to determine how employer costs will be affected in individual school districts. In our opinion, the cost difference between HB 4 and current law will be negligible.

3. Revenues:

School district revenues (Local Funds) will not change materially with the enactment of HB 4 for the same reasons as cited above under Expenditures.

C. Estimated Fiscal Impact − Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Tanesha Morgan, Legislative Fiscal Officer)

1. Narrative

Proposed law authorizes a retiree to return to work as a school nurse and to continue to receive his benefit check; however, the allowable employment earnings of such retiree are capped at 25% of his benefit amount.

Fiscal Cost for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

HB 4 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. However, there may be implementation costs to make minor software modifications to existing computer programs to identify members that are rehired under this measure. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

B. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and Other Government Agencies</u>

1. Narrative

Table D shows the estimated fiscal impact of HB 4 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

The "increase" amounts shown in Chart D are small to negligible in value.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase

<u>Credentials of the Signatory Staff:</u>

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.

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John D. Carpenter, Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

[X] HB 4 contains benefit provisions for members of a Louisiana public retirement system having an actuarial cost.

Some individual members of TRSL will receive a larger retirement benefit if HB 4 is enacted than would be received without HB 4.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

Senate			House		
[ ]	13.5.1	Applies to Senate or House Instruments. If an annual fiscal cost ≥ \$100,000, then bill is dual referred to: **Dual Referral: Senate Finance**	[ ]	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ \$100,000, then the bill is dual referred to: **Dual Referral to Appropriations**
[ ]	13.5.2	Applies to Senate or House Instruments. If an annual tax or fee change ≥ \$500,000, then the bill is dual referred to: **Dual Referral: Revenue and Fiscal Affairs**	[ ]	6.8G	Applies to Senate Instruments only. If a net fee decrease occurs or if an increase in annual fees and taxes ≥ \$500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**