2013 REGULAR SESSION
ACTUARIAL NOTE HB 57

House Bill 57 HLS 13RS-371 **Original** **Author: Representative J. Kevin Pearson** **Date: April 25, 2013** **LLA Note HB 57.01** **Organizations Affected:** **State Retirement Systems** **OR DECREASE 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 57 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/STATE SYSTEMS: Provides relative to actuarial liabilities of state retirement systems

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Increase

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:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Decrease	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	Decrease	Increase	Increase	Increase	Increase

Bill Information:

Current Law

Current law provides the following:

1. Employees must contribute a specified percentage of their pay to the retirement system in which they participate. The contribution percentage varies from system to system, the member's type of employment and the date he first became employed by the state of Louisiana.

2. Benefits payable to members at retirement are based on a calculation of final average compensation (FAC). The FAC is based on an average of salary over either a 36 month period or a 60 month period depending on various factors. Salaries used in the FAC calculation are restricted by anti-spiking provisions that also depend on various factors.

Proposed Law

Special New UAL Employee Contributions

Members of the Louisiana State Employees' Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), the Louisiana School Employees' Retirement System (LSERS), and the State Police Retirement System (STPOL) will begin to make special New UAL contributions beginning July 1, 2015.

1. The special New UAL employee contribution rate shall be 1% of pay beginning July 1, 2015.

2. The special New UAL employee contribution rate shall be 2% of pay beginning July 1, 2017.

3. Employees will be required to make special New UAL employee contributions for as long as there is any outstanding balance on any New UAL charge amortization base. Special New UAL employee contributions will be suspended once all New UAL charge bases have been liquidated. If a New UAL charge base is created thereafter, special New UAL employee contributions will resume at the rate of 2% of pay.

4. These increases in employee contribution requirements will apply to all members except those who participate in the TRSL Optional Retirement Program.

Special New UAL employee contributions required under HB 57, less amounts refunded to employees who request a refund upon termination of employment, shall be used to reduce unfunded accrued liabilities of state retirement systems. Special New UAL employee contributions will not be used to reduce the Original Amortization Base (OAB) or the Experience Account Amortization Base (EAAB). These contributions will be used to reduce all other amortization charge bases beginning with the oldest such base. However, outstanding balances will **not** be re-amortized. As a result, employer contribution requirements will **not** be reduced until all non OAB and EAAB charge bases have been liquidated.

Final Average Compensation and Anti-Spiking

The changes that HB 57 will make relative to the calculation of FAC and the application of anti-spiking rules are summarized below:

Retirement System	**Current Provisions**	**Provisions under HB 57**
LASERS • Rank and File members including law clerks first employed on or before 6/30/2006. • Judges and Court Officers first employed on or before 12/31/2010. • Legislators first employed on or before 12/31/2010. • Correction Primary first employed on or before 12/31/2010. • Correction Secondary first employed on or before 12/31/2010. • Peace Officers first employed on or before 12/31/2010. • ATC Officers first employed on or before 12/31/2010. • Bridge Police first employed on or before 6/30/2006. • Wildlife Agents first employed on or before 12/31/2010.	3 Year FAC 25% Anti-Spiking	5 Year FAC 15% Anti-Spiking
TRSL • All members first employed on or before 12/31/2010.	3 Year FAC 10% Anti-Spiking	5 Year FAC 10% Anti-Spiking
LSERS • All members first employed on or before 6/30/2006.	3 Year FAC 10% Anti-Spiking	5 Year FAC 10% Anti-Spiking
STPOL • All members first employed on or before 12/31/2010	3 Year FAC 25% Anti-Spiking	5 Year FAC 25% Anti-Spiking

Retirement benefits for all other current members of state retirement systems are based on a 5 year FAC period. All other members have a 15% anti-spiking provision except for members of LSERS first employed on or after 7/1/2006 and on or before 12/31/10 who are subject to 10% anti-spiking.

The provisions of HB 57 pertaining to FAC and anti-spiking will be implemented in the following manner.

1. These provisions will not apply to any member who retires on or before December 31, 2013.

2. For members who retire on or after January 1, 2014, the FAC period shall be 36 months plus one month for each whole month that retirement occurs after January 1, 2014.

3. The benefit of any member who retires on or after January 1, 2016, will be based on a 60 month, or 5 year, FAC period.

4. In no event will a member's FAC be less than the amount that would have been calculated as of January 1, 2014.

Implications of the Proposed Changes

As a result of HB 57, retirement benefits payable in the future will be reduced; employee contributions will increase; and employer contribution requirements will be reduced.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Special New UAL Employee Contributions

The provisions of HB 57 pertaining to special New UAL employee contributions will have the following effect on actuarial costs.

1. The actuarial present value of future benefit payments (APV) will increase because special New UAL employee contributions will lead to larger employee refunds when a member requests a refund of contributions upon termination of employment.

2. Under current law, employers will be contributing to the state retirement systems through FYE 2042 to amortize New UALs. Under HB 57, employers will contribute the same amount toward amortization of New UALs until 2032 through 2042 when New UALs will be fully liquidated. As a result, employer amortization payments that would have been made under current law between 2032 and 2042 will not be made under HB 57.

3. The dollar reduction in employer contribution requirements and the dollar increase in employee contribution requirements is summarized below for the four state retirement systems.

Retirement System	Increase in Employee Contributions for FYE 2016-3	Decrease in Employer Contributions for FYE 2032-42
LASERS	$ 736 million	$ 1,228 million
TRSL	1,200 million	2,187 million
LSERS	91 million	150 million
STPOL	22 million	25 million
Total	$ 2,049 million	$ 3,590 million

4. In summary, employees will contribute $2,049 million over the next two decades. Employer contributions will not change during this period, but between 2032 and 2042, the state will save $3,590 million.

Final Average Compensation and Anti-Spiking

The provisions of HB 57 pertaining to changes in the FAC and anti-spiking will have the following effect on actuarial costs associated with the state retirement systems.

1. The actuarial present value of future benefit payments (APV) will decrease because retirement benefits in the future will be smaller. The decrease in APV attributable to the final average compensation and anti-spiking provisions of HB 57 is larger than the increase in APV attributable to the special New UAL employee contributions provisions.

2. The total reduction in the unfunded accrued liability for state retirement systems is about $491.5 million. The total reduction in annual employer contribution requirements is about $74.0 million.

3. A system by system summary of reductions for various actuarial cost components is given below.

Reductions in Costs Associated with the State Retirement Systems

Cost Component	LASERS	TRSL	LSERS	STPOL
Normal Cost	$ 9,700,000	$ 20,300,000	$ 1,600,000	$ 600,000
Unfunded Accrued Liability	182,000,000	273,000,000	25,600,000	10,900,000
Amortization Costs	15,500,000	23,300,000	2,100,000	900,000
Total Employer Contribution Requirement	25,200,000	43,600,000	3,700,000	1,500,000
Employer Contribution Rate	1.02%	1.01%	1.27%	2.42%

Realization of these savings may be delayed or may never occur. It is possible that the constitutionality of SB 7 will be challenged in state or federal courts. According to a memorandum issued by Strasburger, Attorneys at Law to the Office of the Louisiana Legislative Auditor on March 26, 2012, entitled Legal Analysis of 2012 Pension Bills (see www.lla.la.gov/reports_data/actuaryreports) challenges would likely allege violations under:

1. Article X, §29 of the Louisiana Constitution which protects public pension benefits,

2. The Contract Clause within both the Louisiana and U.S. Constitutions claiming contract impairment due to diminished benefits,

3. The Takings Clause of both the Louisiana and U.S. Constitutions for divesting public employee benefits without just compensation,

4. The Due Process Clauses of both the Louisiana and U.S. Constitution and the Fifth Amendment to the U.S. Constitution for depriving employees of property rights without due process, and

5. 42 U.S.C. §1983 against public officials for enforcing unconstitutional laws.

Other Post Retirement Benefits

The present value of future benefit payments attributable to post-employment benefits other than pensions will be smaller to the extent that members delay retirement to make up for the pension benefit reductions that will occur under HB 57.

Analysis of Fiscal Costs

HB 57 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will decrease beginning FYE 2015 to the extent that employer contribution requirements decrease.

2. Expenditures from the state retirement systems (Agy Self-Generated) will increase beginning FYE 2016 because refunds of employee contributions upon termination of employment will be larger.

3. Expenditures from the state retirement systems (Agy Self-Generated) will decrease beginning FYE 2014 because retirement benefits will be smaller. This reduction will be greater than the expenditure increase identified in item 2 above.

4. Expenditures from Local Funds will decrease beginning 2015 to the extent that employer contribution requirements decrease.

Revenues:

1. State retirement system revenues (Agy Self-Generated) will increase beginning in FYE 2016 when special New UAL employee contributions begin to be paid. This revenue increase is expected to exceed the reduction in revenues that will occur because of lower employee contribution requirements attributable to the FAC and anti-spiking provisions.

2. State retirement system revenues (Agy Self-Generated) will decrease beginning in FYE 2015 as employer contribution requirements are reduced to reflect the new FAC and anti-spiking provisions.

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.

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Dual Referral:

Senate	**House**
☐ 13.5.1 ≥ \$100,000 Annual Fiscal Cost	☐ 6.8(F) ≥ \$500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	☐ 6.8(G) ≥ \$500,000 Annual Tax or Fee Change