


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 62**

<p>House Bill 62 HLS 16RS-126 Original</p> <p>Author: Representative Barry Ivey Date: May 3, 2016</p> <p>LLA Note HB 62.01</p> <p>Organizations Affected: State Retirement Systems</p> <p>OR NO IMPACT APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 62 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: Sets minimum employer contributions and provides for funding deposit accounts for each state retirement system.

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 to Retirement Systems	\$0
Total Five Year Fiscal Cost	
Expenditures	\$0
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.

<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

Estimated Fiscal Impact:

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	\$ 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	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

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Bill Information:

Current Law

Current law defines the actuarially required employer contribution for each of the four state retirement systems – Louisiana State Employees' Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), Louisiana School Employees' Retirement System (LSERS), and Louisiana State Police Retirement System (STPOL) – as the sum of the following:

1. The employer normal cost;
2. The annual amortization payment necessary to amortize changes in unfunded accrued liabilities (UAL) that occurred in prior years;
3. The annual amortization payment necessary to amortize the most recent year's over- or under-payment of employer contributions; and
4. The annual amortization payment necessary to amortize changes in UAL resulting from gains/losses, asset valuation method changes, changes in actuarial assumptions or funding methods, and benefit changes occurring over the most recent year.

Employer contribution requirements summarized above are set forth in R.S. 11:102 of current law.

Proposed Law

HB 62 creates a new minimum employer contribution rate that will be used to fund a newly established Funding Deposit Account. The purpose of this arrangement is to ensure consistent progress toward a 100% funded ratio and restoration to a 100% funded ratio should a system's funded ratio fall below 90%. Rules, which will be set forth in R.S. 11:102.4, are summarized below.

Definitions

1. The *Excess Employer Contribution Rate* is equal to 20.00% minus the employer contribution rate determined in accordance with R.S. 11:102, but not less than 0.00%.
2. *Excess Employer Contributions* will be equal to the Excess Employer Contribution Rate multiplied by the projected payroll for all active and contributing members of the system.
3. The *Funded Ratio* is the ratio of the actuarial value of assets to the actuarial accrued liability.

Employer Contribution Rate

1. The preliminary employer contribution rate shall be calculated in accordance with R.S. 11:102.
2. If the preliminary employer contribution rate is less than 20.00%, the funded ratio on the valuation date is less than 100%, and the funded ratios on all prior valuation dates have all been less than 100%, then the employer contribution rate will be equal to 20.00%.
3. If the preliminary employer contribution rate is less than 20.00%, the system had attained a funded ratio of 100% or more after July 1, 2016, and the funded ratio on the valuation date is less than 90%, then the employer contribution rate will be equal to 20.00%.
4. Otherwise the employer contribution rate will be equal to the preliminary employer contribution rate.

Allocation of Excess Employer Contributions

1. If the funded ratio on the valuation date is 80% or less, then 100% of excess employer contributions will be applied to reduce the outstanding balance of the oldest UAL charge base.
2. If the funded ratio on the valuation date is greater than 80%, then 50% of excess employer contributions will be used to reduce the outstanding balance of the oldest UAL charge base and 50% of excess employer contributions will be deposited into the Funding Deposit Account.

Funding Deposit Account

1. Each state retirement system will establish a Funding Deposit Account that will be funded by excess employer contributions.
2. The balance in the Funding Deposit Account will earn interest at the board approved valuation interest rate.
3. The board of trustees or each system may use the balance in the Funding Deposit Account to:
 - a. Reduce the UAL, or
 - b. Pay all or a portion of any net direct employer contribution amount.

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4. If funds in the Funding Deposit Account are used to pay all or a portion of net direct employer contributions, then the employer contribution rate otherwise applicable will be reduced by the ratio of payments from the Funding Deposit Account to the projected payroll.
5. Any asset value used in the calculation of the actuarial value of assets shall exclude the balance in the Funding Deposit Account.
6. Funds in the Funding Deposit Account shall be considered as assets of the system for all purposes other than funding.

Implications of the Proposed Changes

HB 62 establishes a Funding Deposit Account for each state retirement system. A system's Funding Deposit Account will not be funded unless.

1. The employer contribution rate is less than 20%, and the funded ratio is and always has been less than 100%, or
2. The employer contribution rate is less than 20% and the system had attained a funded ratio after July 1, 2016 of 100% or more, but on the valuation date is greater than 80%.

Cost Analysis:

Analysis of Actuarial Costs

HB 62 does not contain benefit provisions having an actuarial cost.

Retirement Systems

There is no actuarial cost associated with HB 62. Employer contribution requirements under HB 62 may be larger in future years than what they would have been under current law. However, this is a change in funding policy; it is not a change in the actuarial cost of the system.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 62 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

It is very unlikely that the employer contribution rate for any of the state retirement systems rate will fall below 20.00% within the 5 year fiscal measurement period. It is also very unlikely that any of the systems will attain 100% funding within the 5 year measurement period. Therefore, it is not likely that HB 62 will have any effect on fiscal costs during the next five years.

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