2014 REGULAR SESSION
ACTUARIAL NOTE HB 89

House Bill 89 HLS 14RS-76 **Engrossed** **Author: Representative Gregory Miller** **Date: April 15, 2014** **LLA Note HB 89.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **Louisiana School Employees' Retirement System** **OR DECREASE FC LF EX**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 89 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: Schools/Finance: Provides relative to the payment of accrued liabilities of retirement systems and other retirement obligation from the minimum foundation program funds allocated to charter schools

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	$0
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

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	$0
Other Post Retirement Benefits	$0
Total	$0

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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Bill Information:

Current Law

Under current law, a Type 1, 1B, 2, 3, 3B or 4 charter school is funded by a local school district or by the state board. The amount received by a charter depends on the MFP grant received by the local school district from the state as well as other taxed based revenue not dedicated to capital outlay or debt service. A local school district divides the total amount of qualified revenue it receives by the number of pupils in the district including pupils in charter schools domiciled in the district. The result is called the Per Pupil Allocation of Resource. The school district pays each charter school in the district an amount equal to its Per Pupil Allocation of Resources (PPAR) multiplied by the number of pupils in the charter school.

Proposed Law

If HB 89 is enacted, the amount paid to charter schools by a school district will depend on whether a charter school's employees participate in the Teachers' Retirement System of Louisiana (TRSL) or the Louisiana School Employees' Retirement System (LSERS). HB 89 presents three charter school situations and defines per pupil funding that will be provided in each case.

Situation A

1. Definition: a charter school in which all employees are either a member of LSERS or a member of TRSL.
2. Charter School Funding
    - Charter school gets the same per pupil portion of the MFP as the District in which it is located.

Situation B

1. Definition: a charter school with no employers participating in either LSERS or TRSL.
2. Charter School Funding
    a. The school district retains normal costs that the charter school would have paid had its employees been members of TRSL and LSERS. The portion of the MFP paid to the charter school is reduced accordingly.

    b. The school district sends the UAL cost that the charter school would have paid had its employees been members of TRSL and LSERS to the retirement systems. The portion of the MFP paid to the charter school is reduced accordingly.

Situation C

1. Definition: a charter school with employees in either LSERS or TRSL, but not both.
2. Charter School Funding
    a. The charter participates in TRSL but not LSERS
        1) The school district retains normal costs that the charter would have paid to LSERS had its eligible employees, eligible for LSERS, been members of LSERS.
        2) The school district sends the UAL cost to LSERS that the charter school would have paid relative to its employees had they otherwise been eligible to participate in LSERS.

    b. The charter participates in LSERS but not TRSL
        1) The school district retains normal costs that the charter would have paid to TRSL had its eligible employees, eligible for TRSL, been members of TRSL.
        2) The school district sends the UAL cost to TRSL that the charter school would have paid relative to its employees had they otherwise been eligible to participate in TRSL.

Implications of the Proposed Changes

As a result of HB89, funding for charter schools will be reduced. School districts will retain normal costs that would otherwise have been paid by a charter school for its employees not participating in TRSL or LSERS. In addition, charter schools will have to pay to TRSL or LSERS the UAL cost associated with its employees that would have been paid had they been members of TRSL or LSERS.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

HB 89 contains no benefit provisions having an actuarial cost.

HB 89 will have no effect on the actuarial present value of future benefit payments. Other effects of HB 89 are summarized below:

1. Expenditures by school districts will decrease. Districts will retain normal costs and UAL costs that otherwise would be paid to charter school within the district.

2. Expenditures by districts will increase because they must pay UAL costs not forwarded to charter schools to the retirement systems instead.

3. District revenues will not change.

4. TRSL and LSERS revenues will increase as these systems receive payments toward UAL costs that they otherwise would not have received.

5. Charter school revenues will decrease because they will no longer receive normal costs and UAL costs associated with employees not participating in TRSL or LSERS.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 89 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

Fiscal costs associated with HB 89 are summarized below:

Expenditures:

1. Expenditures from the General Fund will decrease to the extent that shared UAL costs decrease.

2. Expenditures from Local Funds will decrease because districts will retain normal costs relative employees of charter school not participating in TRSL or LSERS.

3. Expenditures from Local Funds will decrease to the extent that shared UAL costs decrease.

Revenues:

1. Retirement system revenues (Agy Self-Generated) will increase because TRSL and LSERS will receive payments toward UAL costs that they would not have otherwise received.

2. Charter school revenues (Local Funds) will decrease because they will no longer receive funding relative to retirement costs associated with members not participating in TRSL or LSERS.

<u>Actuarial Data, Methods and Assumptions</u>

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.

<u>Actuarial Caveat</u>

There is nothing in HB 89 that will compromise the signing actuary’s ability to present an unbiased statement of actuarial opinion.

<u>Actuarial Credentials:</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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Dual Referral:

Senate	House
☐ 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