2013 REGULAR SESSION
ACTUARIAL NOTE SB 14

Senate Bill 14 SLS 13RS-170 **Original** **Author: Senator Daniel R. Martiny** **Date: March 21, 2013** **LLA Note SB 14.01** **Organizations Affected:** **All Louisiana Public Retirement Systems** **OR INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 14 provides compliance with the requirements of R.S. 24:52.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT CREDIT. Provides relative to transfers of service credit between systems. (2/3 - CA10s29(F) (6/30/13)

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
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 to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	Increase
Total	Increase

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

Bill Information:

Current Law

Under current law, a person who is first employed in a position covered under System A and then subsequently becomes employed in a position covered under Plan B may, under certain conditions, transfer service credits from Plan A to Plan B or from Plan B to Plan A. The former transfer is commonly referred to as a Forward Transfer. The latter transfer is commonly referred to as a Reverse Transfer. Rules pertaining to Forward Transfers and Reverse Transfers are summarized below.

1. Abbreviations

    a. AC **–** Actuarial cost to Plan B for the service transferred.
    b. EE **–** Employee contributions accumulated in Plan A without interest.
    c. TCI **–** Employer and employee contributions accumulated in Plan A with interest.

2. Forward Transfer Rules

    a. A person may request a Forward Transfer at any time in his career and, depending on the number of job changes in his public service career with the state of Louisiana, may have several such Forward Transfers.

    b. When a person requests a Forward Transfer, Plan A must transfer the following amount of assets to Plan B.

        1) AC will be transferred if TCI > AC > EE.

        2) EE will be transferred if TCI > EE > AC.

        3) TCI will be transferred if AC > TCI > EE.

    c. Accrual rates applicable to the service credits transferred from Plan A to Plan B will be the rates that the person earned under Plan A.

    d. If the amount transferred from Plan A is less than the Actuarial Cost to Plan B, the person requesting the transfer must pay the difference between the Actuarial Cost and the assets transferred in order to receive full credit in Plan B for his service earned under Plan A (using the Plan A accrual rates).

    e. If the amount transferred from Plan A is less than the Actuarial Cost to Plan B, the person requesting the transfer may elect to have the service that will be credited by Plan B reduced to the number of service credits (using Plan A accrual rate) that the transferred assets will purchase in Plan B.

    f. Upon completion of the transfer, the person requesting the transfer to Plan B forfeits all rights to benefits in Plan A.

3. Reverse Transfer Rules

    a. A Reverse Transfer may occur if the person who is a member of Plan B never transferred his service credits from Plan A.

    b. A Reverse Transfer may only occur at the time of retirement and may occur only if after the transfer of service credits from Plan B back to Plan A, the person is eligible to and actually retires immediately from Plan A.

    c. The amount transferred from Plan B to Plan A is calculated in the same manner as for a Forward Transfer.

    d. Upon completion of the transfer, the person requesting the transfer forfeits all rights to benefit in Plan B.

Proposed Law

Proposed law provides for the following:

1. An In-Service Reserve Transfer right to any person who makes such a request on or before December 31, 2013.

2. Special transfer rights for certain employees of the St. George Fire Department.

These special benefit provisions are summarized below.

In-Service Reverse Transfer

1. A person requesting the In-Service Reverse Transfer does not need to retire immediately.

2. The request for the In-Service Reverse Transfer must occur on or before December 31, 2013.

3. The In-Service Reverse Transfer will only be given if the person who is a member of Plan B had previously been a member of Plan A and who had the right to remain a member of Plan A when he became employed in a position covered under Plan B.

4. The amount of assets to be transferred from Plan B to Plan A and the service credits that may be granted or purchased by the member requesting the transfer are calculated in a manner similar to that described for a Reverse Transfer under current law.

5. After the transfer is complete, the person requesting the transfer forfeits all benefit rights in Plan B and begins to accrue benefits under Plan A.

St. George Fire Department Transfers

1. This provision of SB 14 applies only to members of the Firefighters' Retirement System (FRS) who are employees of the St. George Fire Department and who also transferred service credit from the New Orleans Firefighters' Pension and Relief Fund (NOFF) into FRS between August 26, 1999 and September 26, 2005.

2. This provision only applies to service credit transferred from NOFF to FRS during that time.

3. The benefit accrual rate for the transferred service is currently 2.5%, the rate associated with NOFF. SB 14 will increase the accrual rate for this service to be 3 1/3%, the rate applicable to FRS.

4. The transferred service will be credited with the higher rate upon payment to FRS of the Actuarial Cost associated with the increased accrual rate.

5. The St. George Fire Department is authorized to pay the Actuarial Cost as long as it does not use funds derived from assessments against insurers.

6. St. George Fire Department may pay the Actuarial Cost over time by amortizing the Actuarial Cost with level payments over a 30 year period using an interest rate of 7.5%.

Implications of the Proposed Changes

SB 14 provides special service transfer rights to individuals who satisfy specific employment criteria.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

In-Service Reverse Transfer

The In-Service Reverse Transfer will have the following impact on actuarial costs relative to state and statewide retirement systems in the aggregate.

1. The actuarial present value of future benefits (APV) for all state and statewide systems in the aggregate will increase for eligible members who elect an In-Service Reverse Transfer.

2. The actuarial accrued liability in the aggregate will also increase.

3. The unfunded accrued liability will not increase because any increase in the accrued liability must be paid by the member at the time the In-Service Reverse Transfer occurs.

4. Future normal costs will increase because the only individuals apt to request an In-Service Reverse Transfer are those who will earn a higher accrual rate after such transfer than they would have earned without such a transfer.

Our analysis can be explained by the following example.

Example Criteria

1. A person was employed in a position that was covered by Plan A which has a 3.0% accrual rate.

2. He subsequently becomes employed in a position that is covered under Plan B which has a 2.5% accrual rate.

3. When the person became employed in the new position, he had the right to remain a member of Plan A continuing to earn service credits under Plan A even though he was employed in a position covered by Plan B.

4. The person failed to make this election in a timely manner and became a member of Plan B. However, he still retains benefit service rights in Plan A because he has not asked for a transfer of service from Plan A to Plan B.

Conclusions

1. Under current law, the person could request a transfer from Plan A to Plan B. At retirement his pension benefit would be paid from Plan B. This benefit would be calculated as 3.0% x service credits granted as a result of the transfer + 2.5% x service earned under Plan B, with the entire benefit based on his FAC at retirement.

2. Under proposed law, the person could request an In-Service Reverse Transfer, have his Plan B service transferred to Plan A, and be treated as a Plan A member thereafter even though he is employed in a position that would otherwise be covered under Plan B. At retirement, the person's benefit would be paid from Plan A. It would be calculated as 3.0% x Plan A service earned before the employment change + 3.0% x service credits granted as a result of the transfer + 3.0% x service earned under Plan A subsequent to the In-Service Reverse Transfer with the entire benefit based on his FAC at retirement.

3. The transfer of service credits earned prior to the In-Service Reverse Transfer is cost neutral to state and statewide systems in the aggregate because the member picks up any additional cost incurred. However, state and statewide systems in the aggregate will pay more in the future because the person will accrue benefits at a 3.0% rate rather than at a 2.5% rate.

St. George Fire Department Transfers

The special transfer rights given to certain members of the St. George Fire Department will have the following impact on actuarial costs for FRS.

1. SB 14 will provide 19 members of the St. George Fire Department with special service transfer rights.

2. The actuarial present value of future benefits (APV) for FRS will increase by about $950,000.

3. The actuarial accrued liability in the aggregate will also increase by $950,000.

4. The unfunded accrued liability will increase by $950,000 unless then Fire Department makes an immediate one-time payment to pay for the additional benefits.

5. Employer contribution requirements for the St. George Fire Department will increase about $75,000 for the next 30 years if the debt created by SB 14 is amortized with level payments over 30 year period using a 7.5% interest rate.

6. Employer contribution requirements for the other fire departments participating in FRS will not change unless the St. George Fire Department becomes unable for some reason to make the annual payments of $75,000.

7. Future normal costs will not increase.

These cost estimates are based on a study conducted by the G. S. Curran & Company, LTD.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 14 relative to post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 14 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase to the extent that employer contributions to state retirement systems increase as eligible system members transact In-Service Reverse Transfers moving from retirement systems with lower benefit accrual rates to higher rates.

2. Expenditures from state retirement systems (Agy Self-Generated) will increase to the extent that a member who conducts an In-Service Reverse Transfer begins to receive a pension benefit during the five year fiscal measurement period.

3. Expenditures from FRS will increase to the extent that any of the 19 members of the St. George Fire Department retire during the five year fiscal measurement period.

4. Expenditures from Local Funds will increase to the extent that employer contributions to statewide retirement systems increase as members transacting In-Service Revers Transfers migrate to statewide retirement systems.

5. Expenditures from Local Funds will increase to the extent that the St. George Fire Department will be required to contribute $75,000 per year more to FRS than it would have been required to contribute without regard to the enactment of SB 14.

Revenues:

1. Revenues to state and statewide retirement systems (Agy Self-Generated) will increase for the following reasons:

    a. Employees will be paying additional funds to pay for the Actuarial Cost associated with In-Service Reverse Transfers.

    b. Employers participating in state and statewide retirement systems will be contributing more to pay for larger benefit accrual rates that will be earned in the future for those who transact In-Service Reverse Transfers.

c. The St. George Fire District will be contributing $75,000 a year more to FRS than it currently contributes. This additional contribution requirement will remain in force for the next 30 years.

We estimate the total expenditure amount from the enactment of SB 14 ranges from $100,000 to $500,000 annually during the fiscal measurement period.

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**
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[ ] 6.8(F)(1) ≥ $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