


**2014 REGULAR SESSION
ACTUARIAL NOTE SB 14**

<p>Senate Bill 14 SLS 14RS-206 Original</p> <p>Author: Senator Elbert L. Guillory</p> <p>Date: March 16, 2014</p> <p>LLA Note SB 14.01</p> <p>Organizations Affected: Louisiana School Employees' Retirement System</p> <p>OR +\$10,781,337 FC LF EX</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 14 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: SCHOOL EMPLOYEES RET. Provides for the determination of system liabilities and the payment therefor. (6/30/14)

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	\$ 29,115,316
Revenues	\$ 29,115,316

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 (Savings) to:</u>	<u>Increase (Decrease) 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 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	\$ 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	10,781,337	8,411,274	5,934,559	3,346,391	641,755	29,115,316
Annual Total	\$ 10,781,337	\$ 8,411,274	\$ 5,934,559	\$ 3,346,391	\$ 641,755	\$ 29,115,316

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	10,781,337	8,411,274	5,934,559	3,346,391	641,755	29,115,316
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	\$ 10,781,337	\$ 8,411,274	\$ 5,934,559	\$ 3,346,391	\$ 641,755	\$ 29,115,316

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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

Bill Information:

Current Law

Current law provides that changes in the actuarial accrued liability for the Louisiana School Employees' Retirement System (LSERS) resulting from actuarial gains and losses, changes in the method of valuing of assets, changes in actuarial assumptions, and changes in actuarial funding methods, shall be amortized with level payments over a 30 year period. However, exceptions were made for certain liability changes in FYE 2001, FYE 2002 and FYE 2003. These changes in liability were amortized over a 30 year period with payments increasing 4.5% a year.

Proposed Law

SB 14 will require all existing outstanding balances as of June 30, 2014, to be re-amortized with level payments over a 30-year period beginning with the payment for FYE 2015 and ending with the payment for FYE 2044. SB 14 does not apply to outstanding balances associated with contribution variances. SB 14 only applies to bases that exist on June 30, 2014. It does not pertain to bases created after June 30, 2014.

Implications of the Proposed Changes

SB 14 will re-amortize the June 30, 2014, unfunded accrued liability with level payments over a 30-year period.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 14 does not contain any benefit provision with an actuarial cost.

SB 14 will change the pattern of paying off the Unfunded Actuarial Liability. The unfunded actuarial liability will be paid off earlier under current law than under proposed law. Under SB 14, contributions received from participating employers to amortize the unfunded liability are larger for the first five years. However, interest paid over the entire amortization period will be greater than the interest paid under current law. The table below summarizes the 5-year period and long term effect of SB 14.

Amortization of the Outstanding Bases as of June 30, 2014

	Under Current Law	Under SB 14	Increase/Decrease
Unfunded Amortization Bases (UAB)	\$ 905,696,580	\$ 905,696,580	\$ 0
Interest Payment to Pay off UAB	955,679,314	1,235,071,967	279,392,654
Total Payments	1,861,375,894	2,140,768,547	279,392,654

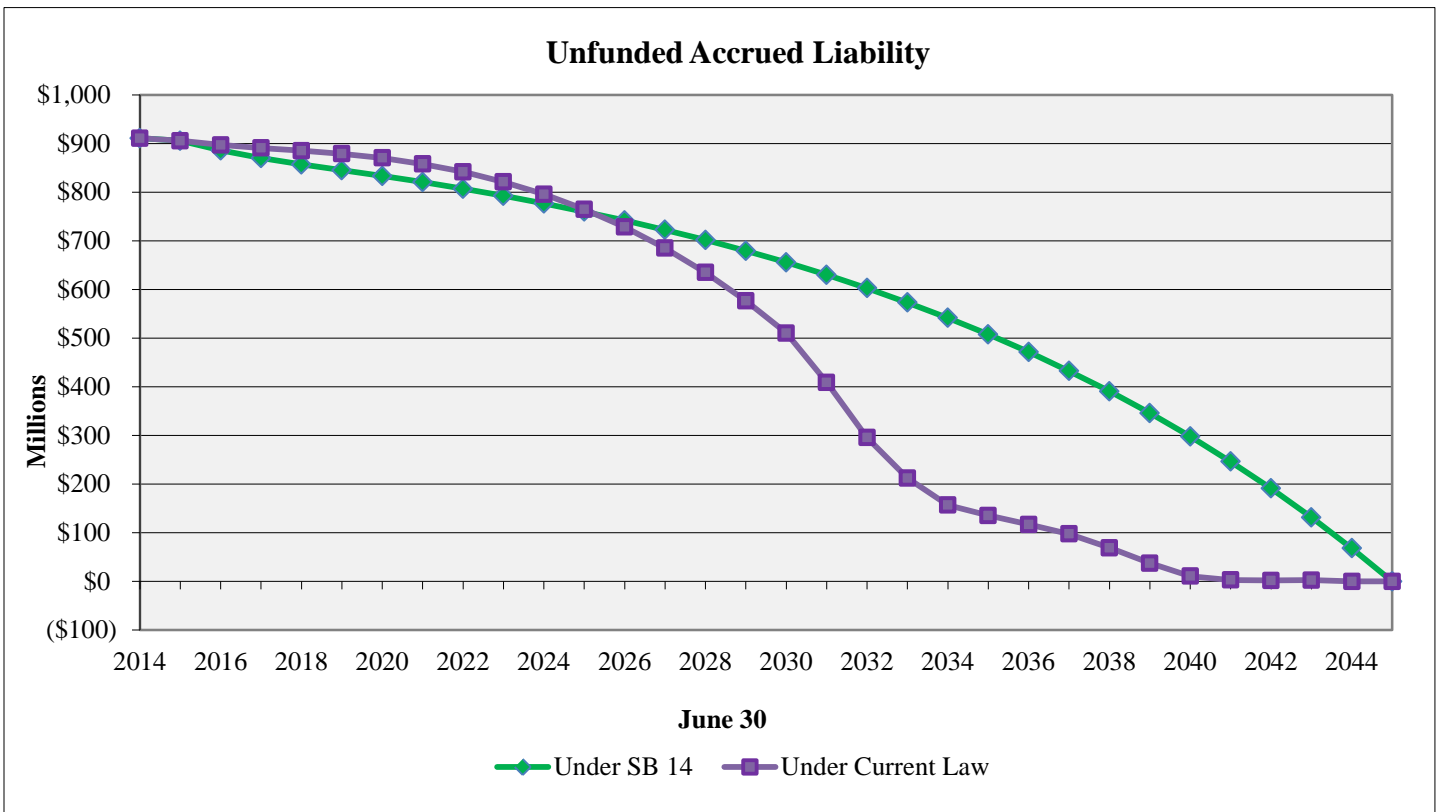
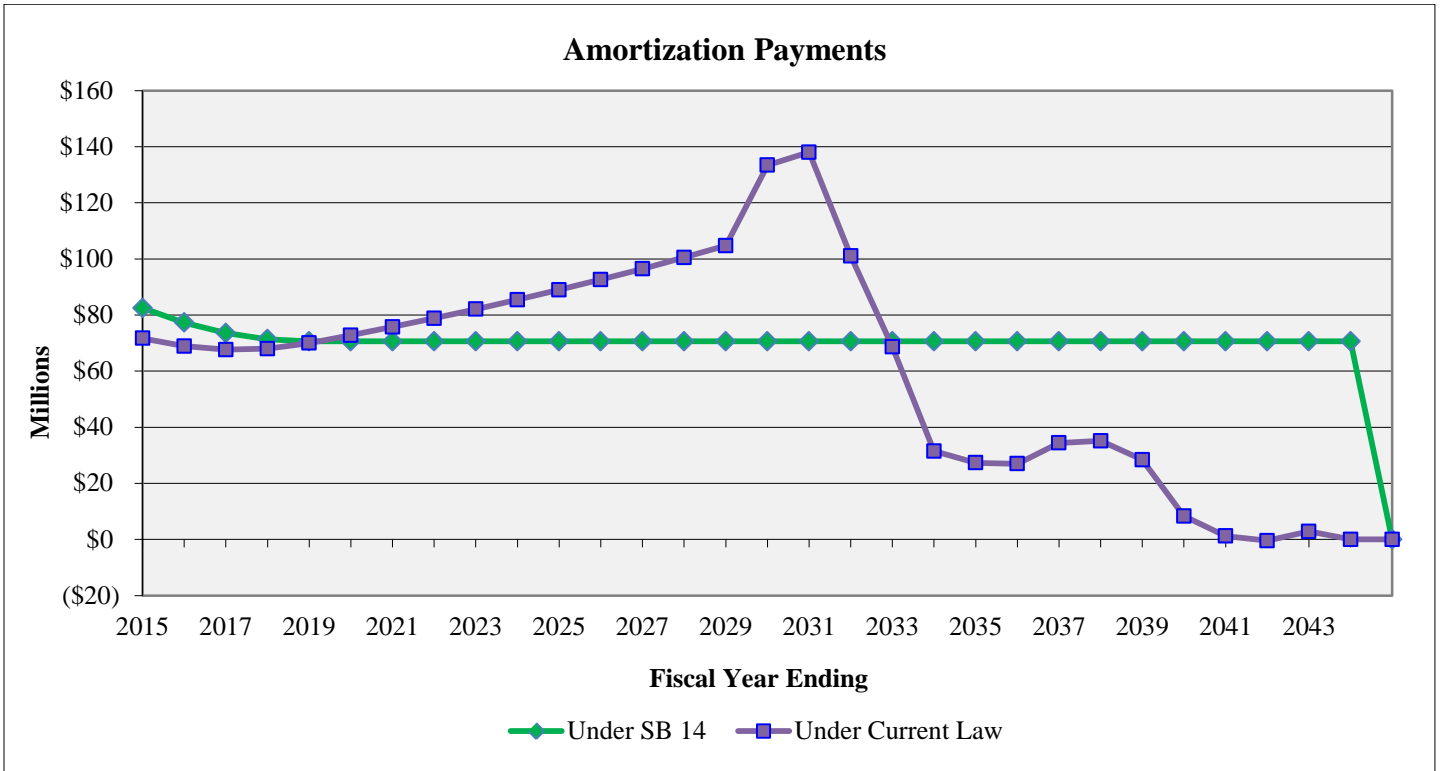
Changes in employer contribution requirements over the five year period following the 2014 legislative session are shown below:

Increase in Amortization Payments over the 5-Year Measurement Period

FYE	Current Law	SB 14	Increase/Decrease
2015	\$ 71,693,968	\$ 82,475,305	\$ 10,781,337
2016	68,895,577	77,306,851	8,411,274
2017	67,641,576	73,576,135	5,934,559
2018	67,987,000	71,333,391	3,346,391
2019	69,976,586	70,618,341	641,755
Total	\$ 346,194,706	\$ 375,310,022	\$ 29,115,316

Amortization costs and the unfunded accrued liability over the entire amortization period will change as shown in the following graphs.

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Other Post-Employment Benefits

There are no actuarial costs or savings associated with SB 5 for other post-employment benefits.

Analysis of Fiscal Costs

SB 14 will have the following effect on fiscal costs:

Expenditures:

- Local Fund expenditures will increase because employer amortization payments will increase during the five year measurement period.

Revenues:

- LSERS revenues will increase because employer amortization payments will increase during the five year measurement period.

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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 approved by PRSAC. The actuary signing this note may or may not agree with or endorse these assumptions. He is using this data, methods and assumptions to provide consistency with the actuary for the retirement systems who also may be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in SB 14 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.