


**2014 REGULAR SESSION
ACTUARIAL NOTE SB 23**

<p>Senate Bill 23 SLS 14RS-199 Original</p> <p>Author: Senator Elbert L. Guillory</p> <p>Date: March 28, 2014</p> <p>LLA Note SB 23.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR INCREASE APV</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 23 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: TEACHERS RETIREMENT. Allows an optional retirement plan participant to transfer to the regular plan. (2/3 - CA10s29(F)) (6/15/14)

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	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.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
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	2014-15	2015-16	2016-17	2017-2018	2018-2019	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Current law provides that academic and administrative employees of public institutions of higher education may elect to participate in the TRSL Optional Retirement Plan. The Optional Retirement Plan (ORP) is a defined contribution plan designed to provide employees in higher education with benefit portability. The election to participate must be made within 60 days of the employee's date of hire. The election is irrevocable.

Proposed Law

SB 23 will permit any active contributing member of ORP to establish or reestablish membership in TRSL's defined benefit plan. This transfer will be implemented in accordance with the following:

1. The entire ORP account balance of an electing member will be transferred from ORP to the defined benefit plan.
2. The system's actuary shall determine the amount of service credit that may be purchased with the member's account balance. This calculation shall be made in accordance with the provisions of R.S. 11:158.
3. If the amount balance is not sufficient to purchase the full service credits that the member would have earned under the TRSL defined benefit plan had he not joined ORP, then he may purchase all or a portion of the additional credits to which he would have been entitled. The purchase price is equal to the cost of such service credits calculated in accordance with R.S. 11:158.
4. The option to transfer from ORP to TRSL will terminate on June 30, 2020.

Implications of the Proposed Changes

SB 23 gives a member of ORP who made an irrevocable election to participate in ORP the right to revoke that election and become a participant in the TRSL defined benefit plan.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 23 allows a member to revoke an irrevocable election. No matter how well crafted, such a change in law will lead to an increase in the present value of benefits payable to individual members and to an increase in the unfunded accrued liability. On its surface, SB 23 appears to be cost neutral: the transferring member pays the actuarial cost associated with the transfer. However, the transferring member has more knowledge about his position in life than the retirement system. Therefore, a member who perceives that a transfer will be favorable will initiate a transfer and TRSL will incur an unfunded liability. The system cannot accommodate in its actuarial cost calculation all the contingencies associated with the individual's position in life. A member who perceives a transfer to be unfavorable will not request a transfer and no actuarial unfunded liability will be created. The option will be available for the ORP member until June 30, 2020.

In light of this, we conclude the following:

1. SB 23 contains a benefit provision with an actuarial cost.
2. The present value of future benefit payments associated with SB 23 cannot be measured, but will increase.
3. The unfunded accrued liability of the retirement system associated with SB 23 cannot be measured, but will increase.
4. The present value of future employer contributions associated with SB 23 cannot be measured, but will increase.

Other Post-Employment Benefits

There are no actuarial costs or savings associated with SB 23 for other post-employment benefits.

Analysis of Fiscal Costs

SB 23 will have the following effect on fiscal costs.

Expenditures:

1. To the extent that members of ORP transfer to the defined benefit plan, employer contributions payable from General Funds to TRSL will increase as a result of anti-selection.

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2. To the extent that members of ORP elect to transfer to the defined benefit plan, expenditures from TRSL (Agy Self-Generated) will increase. Benefits payable from TRSL will be larger because members eligible for benefit payments will increase.
3. TRSL estimates administrative expenses to increase \$27,637 in FYE 2015 as a result of SB 23.

Revenues:

1. To the extent that members of ORP transfer to the defined benefit plan, employer contributions payable TRSL (Agy Self-Generated) will increase as a result of anti-selection.
2. TRSL revenues (Agy Self-Generated) will increase as funds are transferred from ORP to TRSL and as members make additional payments to purchase additional service credits.

It is likely that expenditures from the General Fund or from TRSL will increase more than \$100,000 in one of the first three years of the five year measurement period.

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. 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 SB 23 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 State Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq \$500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000