# 2014 REGULAR SESSION
# ACTUARIAL NOTE SB 283

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| **Senate Bill 283 SLS 14RS-93**<br>**Original**<br><br>**Author: Senators Troy Brown and Elbert L. Guillory**<br>**Date: April 25, 2014**<br><br>**LLA Note SB 283.01**<br><br>**Organizations Affected:**<br>**Private Sector Employees**<br><br>**OR DECREASE FC GF RV** | **The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 283 provides compliance with the requirements of R.S. 24:521.**<br><br>Paul T. Richmond<br>**Paul T. Richmond, ASA, MAAA, EA**<br>**Manager Actuarial Services** |

**<u>Bill Header:</u>** RETIREMENT BENEFITS. Creates a portable retirement savings plan for private sector employees. (7/1/14)

**<u>Cost Summary:</u>**

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 | $0 |
| Revenues | Decrease |

**<u>Estimated Actuarial Impact:</u>**

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 |

**<u>Estimated Fiscal Impact:</u>**

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 | 0 | 0 | 0 | 0 | 0 | 0 |
| Annual Total | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |

| **REVENUES** | **2014-15** | **2015-16** | **2016-17** | **2017-2018** | **2018-2019** | **5 Year Total** |
|---|---|---|---|---|---|---|
| State General Fund | $ 0 | 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 | 0 | 0 | 0 | 0 | 0 | 0 |
| Annual Total | $ 0 | Decrease | Decrease | Decrease | Decrease | Decrease |

**Bill Information:**

**Proposed Law**

SB 283 establishes the Louisiana Retirement Savings Plan ("Plan"). The purpose of the Plan is to provide retirement and death benefits. Every private employer operating within the state of Louisiana that does not offer any other type of employer-sponsored retirement savings plan will be required to participate in the Plan. Churches, employers with less than five employees or operating for less than 9 months, do not have to participate.

A five member board of trustees will be established to manage the Plan as a private entity. The board of trustees will have the following responsibilities:

1. Overseeing the investment of the pool of assets.

2. Ensuring that the plan is providing retirement and death benefits to participants while affording maximum portability of benefits.

3. Act with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent institutional investor acting in a like capacity and familiar with such matters would use in managing an enterprise of like character and objectives.

4. Select three or more companies to manage the pool of Plan assets. In selecting these companies, the board shall consider the following:

    a. The ability of the company to reduce individual risk and fees using the pooled asset management approach proposed by the company.

    b. The nature and extent of the rights and benefits to be provided for participating employees and their beneficiaries.

    c. The nature and extent of the rights and benefits to the amount of the contributions to be made by participants in the plan.

    d. The suitability of the rights and benefits to the needs and interests of participating employees and their employers.

    e. The ability of the designated companies to provide the rights and benefits.

5. Require providers to manage Plan assets with the objective of providing each participant with a cost-effective stream of income in retirement and reducing benefit level volatility, particularly for those approaching retirement.

6. Promulgate rules to ensure the contribution limits do not conflict with federal law.

7. Take any action necessary to secure the tax-qualified status for the Plan as soon as the federal government provides rules pertaining to such plans.

Each private employer participating in the Plan shall inform all employees of the provisions of this Act within 30 dates of its enactment or within 30 days of hire if later. The following information shall be provided to each employee:

1. The payments that may be elected or treated as elected under the plan.

2. The opportunity to make the election to terminate participation in the Plan.

3. The opportunity to elect different rates of contribution to the Plan.

4. The opportunity to modify the manner in which such amounts are invested for the upcoming year.

A participating employer shall designate a default provider for its employees. Contributions made by an employee who fails to designate a provider shall be made to the default provider.

An employer shall not be a fiduciary with respect to the selection, management, or administration of the Plan. However, an employer will be required to enroll employees and transmit contributions to the Plan. An employer that fails to comply with the Act shall be subject to penalties.

Each employee of every employer participating in the Plan is automatically enrolled and is required to 3% of pay. Employee contributions will not be subject to taxation by the state of Louisiana. Each employee may increase his rate of contribution to the Plan or withdraw from participation in the Plan altogether. An employee who withdraws from participation will be automatically re-enrolled after two years unless he makes a new election not to participate.

Employers may contribute up to five thousand dollars on behalf of each participating employee in the Plan as long as such contributions are made in a uniform manner and are not intended to benefit solely highly compensated employees.

An employee may at any time withdraw his funds from the provider by terminating participation in the Plan. The withdrawal shall be subject to applicable fees, penalties, and taxes.

The benefit of a participant who survives to the annuity starting date shall be provided in the form of a qualified joint and survivor annuity as defined in ERISA. The benefit of the surviving spouse of a person who dies before the annuity starting date shall be a qualified pre-retirement survivor annuity as defined under ERISA.

A participant may elect to start receiving benefit payments from the Plan after attaining age 60 and must begin receiving benefit payments before attaining age 72.

**Implications of the Proposed Changes**

SB 283 establishes the Louisiana Retirement Savings Plan for private employers operating in the state.

**Cost Analysis:**

**Analysis of Actuarial Costs**

There are no actuarial costs to the state associated with SB 283.

**Analysis of Fiscal Costs**

SB 283 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

- Expenditures from the General Fund will not change because it is expected that trustees will initially serve pro-bono and pay their own expenses. Once the Plan is operational it is assumed that trustee fees and expenses and administrative expenses will be paid from investment income.

Revenues:

- General Fund revenues will decrease once the Plan becomes operational because contributions to the Plan will not be subject to taxation by the State of Louisiana.

**Actuarial Caveat**

There is nothing in SB 283 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 | House |
|---|---|
| [ ] 13.5.1: Annual Fiscal Cost ≥ \$100,000 | [ ] 6.8(F)(1): Annual State Fiscal Cost ≥ \$100,000 |
| [x] 13.5.2: Annual Tax or Fee Change ≥ \$500,000 | [x] 6.8(F)(2): Annual State Revenue Reduction ≥ \$500,000 |
| | [x] 6.8(G): Annual Tax or Fee Change ≥ \$500,000 |