


**2018 REGULAR SESSION  
ACTUARIAL NOTE HB 25**

<p><b>House Bill 25 HLS 18RS-43 Original</b></p> <p><b>Author: Representative Pearson Date: March 1, 2018 LLA Note HB 25.01</b></p> <p><b>Organizations Affected: Teachers' Retirement System of Louisiana</b></p> <p><b>OR INCREASE APV</b></p>	<p>This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/TEACHERS: Provides relative to participation of charter school employees in the Teachers' Retirement System of Louisiana.

**Cost Summary:**

The estimated actuarial and fiscal impact of HB 25 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the *actuarial present value of future benefit payments*. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

**Estimated Actuarial Impact:**

The top part of the following chart shows the estimated change in the *actuarial present value of future benefit payments and expenses*, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

<b>Actuarial Costs Pertaining to:</b>		<b>Actuarial Cost</b>
The Retirement Systems		Increase
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
<b>Five Year Fiscal Cost Pertaining to:</b>	<b>Expenses</b>	<b>Revenues</b>
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

This bill is subject to the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

**Bill Information**

**Current Law**

Current law provides that all employees of charter schools are deemed public school employees regarding eligibility for any or all benefits which would accrue under state law, including membership in the Teachers' Retirement System of Louisiana (TRSL) for those defined as teachers, and membership in LASERS for those not defined as teachers. However, participation in either TRSL or LASERS is contingent upon the provisions contained in the school's approved charter.

Current law also includes permission for the school charter to require teachers who were employees of a local school board before becoming employed as charter school teachers to continue membership in TRSL. However, this provision has never become effective since it is provisional depending on a private letter ruling from the IRS.

**Proposed Law**

HB 25 will require all charter school employees defined as "teachers" to be members of TRSL. However, if a teacher entered into an employment contract with the charter school prior to July 1, 2018, and the contract does not provide for membership in TRSL, he will not become a member of TRSL until the expiration or termination of the contract.

In addition, HB 25 will remove the provision awaiting an IRS private letter ruling. This provision is no longer needed because all teachers will be covered by TRSL.

HB 25 retains current law regarding charter school employees who are not defined as teachers. Such employees are eligible to participate in LASERS, contingent upon provisions contained in the school's approved charter.

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**Implications of the Proposed Changes**

All charter school teachers will be members of TRSL. However, there is one exception for charter school teachers who have a contract with a charter school prior to July 1, 2018 and that contract does not include a provision to be a member of TRSL. These teachers will become members of TRSL once their contract with the charter school expires or terminates.

Charter schools still have the option of LASERS coverage for employees who are not teachers.

**I. ACTUARIAL ANALYSIS SECTION**

**A. Analysis of Actuarial Costs  
(Prepared by the LLA)**

This section of the actuarial note pertains to actuarial costs or savings associated with the retirement systems, with OPEB, and with other government entities.

**1. Retirement Systems**

The actuarial cost of HB 25 associated with the retirement systems is expected to increase. Our analysis is summarized below.

Adding members does not change the amount or timing of benefit payments for the current members of the system. However, the additional charter school teachers will accrue retirement benefits and contributions will be required to fund them. Therefore, there is an actuarial cost for HB 25.

**2. Other Post-Employment Benefits (OPEB)**

The actuarial cost of HB 25 associated with OPEB, including retiree health insurance premiums, is not expected to change. Post-employment benefit programs for a charter school depend on the provision for such benefits within the charter. The participation of a charter school teacher in a post-employment benefit program does not depend on his or her participation in TRSL. Therefore, the actuarial cost of HB 25 relative to post-employment benefits is \$0.

**3. Other Government Entities**

The actuarial cost or savings of HB 25 associated with government entities other than TRSL and its sponsors is \$0.

**B. Actuarial Data, Methods and Assumptions  
(Prepared by the LLA)**

Unless indicated otherwise, the actuarial note for HB 25 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by PRSAC. The 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.

**C. Actuarial Caveat  
(Prepared by the LLA)**

There is nothing in HB 25 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

**II. FISCAL ANALYSIS SECTION**

Tables A, B, C, and D have been prepared by the LLA. These tables include information developed by the LLA from its own sources as well as information supplied by Tanesha Morgan of the Legislative Fiscal Office (LFO). Table D includes all costs and savings pertaining to Louisiana government.

The LFO has requested that the information supplied by Tanesha Morgan be included in the actuarial note verbatim and without any changes. This information is shown below under Fiscal Costs Developed by the LFO. The reader should note that complete fiscal cost information is contained within Table D. Fiscal costs developed by the LFO only reflect the portion of Table D that was supplied by the LFO.

Table A pertains to fiscal costs or savings associated with the retirement systems; Table B pertains to OPEB; Table C pertains to fiscal costs associated with government entities other than the retirement systems and sponsors. Table D is the cumulative sum of Tables A, B, and C.

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**A. Estimated Fiscal Impact – Retirement Systems  
(Prepared by LLA using information supplied by the LFO)**

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. Fiscal costs and savings include both administrative and actuarial costs and savings. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

**Retirement System Fiscal Cost: Table A**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Increase	Increase	Increase	Increase	Increase

HB 25 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

- a. General Fund expenditures will not change because K – 12 schools are funded through the Minimum Foundation Program (MFP). The MFP grant is the same whether or not a charter school provides a retirement program requiring large employer contribution or small contributions. As a result, charter schools generally spend less on retirement than public schools and therefore have more funds per student to provide educational opportunities.
- b. Expenditures from TRSL (Agy Self-Generated) will increase. More teachers will participate in TRSL and accrue benefits. Therefore, benefit payments for TRSL will be larger than they are currently.
- c. Expenditures from TRSL (Agy Self-Generated) may potentially increase to update educational and training publications.
- d. Expenditures from Local Funds will increase since more benefits will accrue and additional employer contributions will be required fund them. Note: the state pays the MFP grant to local schools. Local schools aggregate these revenues with revenues from all other sources. TRSL employer contributions are paid out of total revenues received by the school.

3. Revenues:

- a. TRSL revenues (Agy Self-Generated) will increase because charter school teachers will contribute to TRSL and employers will contribute as well.

4. Statistical Data

- a. There are currently 153 charter schools; 44 participate in TRSL; 101 do not participate; and 8 are in the process of withdrawing from TRSL
- b. If we assume that each charter school has 20 teachers, there are over 2,000 teachers who will become members of TRSL with the enactment of HB 25.

**B. Estimated Fiscal Impact – OPEB  
(Prepared by LLA)**

1. Narrative

Table B shows the estimated fiscal impact of HB 25 on actuarial costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

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**OPEB Fiscal Cost: Table B**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

HB 25 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

**C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)  
(Prepared by the LLA using information supplied by the LFO)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact (administrative and actuarial) of HB 25 on such government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

**Fiscal Costs for Other Government Entities: Table C**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

HB 25 will have the following effects on fiscal costs and revenues related to government entities other than TRSL and its sponsors during the five year measurement period.

2. Expenditures:

- a. Costs for charter schools will increase because their teachers will be required to become members of TRSL which is generally more expensive than the retirement programs to which they current belong. These costs are included in Table A – Local Fund Expenditures.

3. Revenues:

- a. HB 25 will have no impact on the revenues of government entities other than TRSL and its sponsors.

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**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities  
(Prepared by LLA)**

1. Narrative

Table D shows the estimated fiscal impact of HB 25 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

**Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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	increase	increase	increase	increase	increase
Annual Total	increase	increase	increase	increase	increase	increase

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	increase	increase	increase	increase	increase

**Fiscal Costs Received by the LLA from the LFO**

1. Narrative

Present law provides that charter school teachers may participate in Teacher’ Retirement System of Louisiana (TRSL) contingent upon provisions contained in the individual school’s charter. Proposed law removes this contingency and provides that charter schools teachers *shall be* members of TRSL.

**Fiscal Costs for Other Government Entities**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</b>	<b>5 Year Total</b>
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

HB 25 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

3. Expenditures:

*There will be increased costs to charter schools that do not participate in TRSL. This measure requires that charter school teachers participate in the TRSL. Of the 146 active school charters, there are 95 charters that do not currently participate in TRSL. These schools participate in Social Security instead, which has a contribution rate of 6.2%. TRSL’s employer contribution rate in FY 18 is 26.6%. This measure increases these charter schools’ retirement expenses by the difference, which is 20.4%*

*There may also be implementation costs to TRSL to update educational and training publications. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.*

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3. Revenues:

*There is no anticipated direct material effect on governmental revenues as a result of this measure.*

**Credentials of the Signatory Staff:**

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.

John D. Carpenter, Legislative Fiscal Officer, has supervised the preparation of the fiscal analyses contained herein.

**Information Pertaining to Article (10)(29(F) of the Louisiana Constitution**

HB 25 contains a retirement system benefit provision having an actuarial cost.

No current member of TRSL will receive a larger benefit with the enactment of HB 25 than what he would have received without HB 25. However, new members will be receiving benefits, and employers will be making contributions to fund them.

**Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:**

The information presented below is based on information contained in Table D for the first three years following the 2018 regular session.

<b><u>Senate</u></b>	<b><u>House</u></b>
<input type="checkbox"/> 13.5.1 Applies to Senate or House Instruments. If an annual fiscal cost $\geq$ \$100,000, then bill is dual referred to: <b>Dual Referral: Senate Finance</b>	<input type="checkbox"/> 6.8F Applies to Senate or House Instruments. If an annual General Fund fiscal cost $\geq$ \$100,000, then the bill is dual referred to: <b>Dual Referral to Appropriations</b>
<input type="checkbox"/> 13.5.2 Applies to Senate or House Instruments. If an annual tax or fee change $\geq$ \$500,000, then the bill is dual referred to: <b>Dual Referral: Revenue and Fiscal Affairs</b>	<input type="checkbox"/> 6.8G Applies to Senate Instruments only. If a net fee decrease occurs or if an increase in annual fees and taxes $\geq$ \$500,000, then the bill is dual referred to: <b>Dual Referral: Ways and Means</b>