


**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 33**

<p><b>House Bill 33 HLS 16RS-388 Original</b></p> <p><b>Author: Representative Sam Jones Date: April 13, 2016</b></p> <p><b>LLA Note HB 33.01</b></p> <p><b>Organizations Affected: State Retirement Systems</b></p> <p><b>OR DECREASE APV</b></p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 33 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/COLAS: Provides for payment of cost-of-living adjustments (COLAs) to retirees and beneficiaries of state retirement systems without legislative approval in certain circumstances.

**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 to Retirement Systems	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

**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.

<b><u>Actuarial Cost to:</u></b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	\$0
Total	Decrease

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 the retirement systems and other government entities. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by “Increase” or a positive number. Actuarial or fiscal savings are denoted by “Decrease” or a negative number.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease

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### **Bill Information:**

#### **Current Law**

Current law provides a template setting forth the conditions under which a board of trustees for each of the state retirement systems – the Louisiana State Employees' Retirement System (LASERS), the Teachers' Retirement System of Louisiana (TRSL), the Louisiana School Employees' Retirement System (LSERS), and the Louisiana State Police Retirement System (STPOL) – may recommend to the legislature that the system be allowed to grant a COLA to eligible retirees, beneficiaries, and survivors.

Currently, a COLA can be granted only if:

1. The necessary conditions as identified in the template have been satisfied.
2. The balance in the Experience Account is sufficient to fund the COLA on an actuarial basis.
3. The actuary for the legislative auditor agrees there are sufficient assets in the Experience Account.
4. The board of trustees approves a COLA that conforms to the template.
5. A bill is prepared to request the COLA.
6. The bill passes both the House and Senate by a two third majority vote.
7. The bill is signed by the governor.

Current law provides that COLAs be based on the first \$60,000 of a retiree, beneficiary, or survivor's benefit. The \$60,000 limit will be increased in accordance with the increase in the CPI-U, if any. The first such adjustment will be made on July 1, 2016.

#### **Proposed Law**

Under HB 33, a board of trustees may grant a COLA if:

1. The necessary conditions as identified in the template have been satisfied.
2. The balance in the Experience Account is sufficient to fund the COLA on an actuarial basis.
3. The actuary for the legislative auditor agrees there are sufficient assets in the Experience Account.
4. The board of trustees approves a COLA that conforms to the template.

It will no longer be necessary to obtain approval from the legislature.

Under HB 33, COLAs will be provided only on the first \$60,000 of an eligible retiree, beneficiary, or survivor's benefit. Indexation of the limit will begin July 1, 2028. Indexation will not be retroactive to July 1, 2015.

#### **Implications of the Proposed Changes**

Currently, legislative approval of a COLA requires a two-thirds majority vote of the House and Senate. Under HB 33, approval will be automatic as long as it conforms to the template law. The limit on benefits subject to a COLA will be adjusted.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

HB 33 does not contain any benefit provisions having an actuarial cost.

#### **Retirement Systems**

HB 33 will have an actuarial cost only if you assume that the lack of legislative approval will result in COLA grants that are greater than the amount called for under the current law template. However, experience has shown that the legislature is more apt to grant a COLA that is larger than that provided for under current law. We therefore conclude that there is no cost associated with this portion of HB 33.

The provisions of HB 33 pertaining to the limit on benefits subject to a COLA adjustment will result in a reduction of actuarial costs. Instead of the limit being indexed beginning July 1, 2016, indexation will not begin until July 1, 2028. Therefore, HB 33 will result in lower COLAs for retirees receiving large benefit amounts. There are very few retirees with a benefit that exceed \$60,000 today and there will be very few in the foreseeable future. Nevertheless, cost-of-living-adjustments will be smaller in the aggregate under HB 33 than they are under current law. Therefore, actuarial costs will decrease as a result of HB 33.

#### **Other Post-Employment Benefits**

There are no actuarial costs associated with HB 33 for post-employment benefits other than pensions.

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**Analysis of Fiscal Costs**

HB 33 will have the following effects on fiscal costs during the 5-year fiscal measurement period.

Expenditures:

1. Expenditures from the State General Fund will decrease because COLA benefit payments will be smaller for those receiving large pensions. As a result, employer contribution requirements will be smaller. We estimate the first decrease will occur for FYE 2019.
2. Expenditures from the retirement systems (Agy Self-Generated) will decrease for FYE 2017. COLA increases effective July 1, 2016 will be smaller for those with large pensions.
3. Expenditures from Local Funds will decrease because COLA benefit payments will be smaller for those receiving large pensions. As a result, employer contribution requirements will be smaller. We estimate the first decrease will occur for FYE 2019.

Revenues:

- State retirement system revenues (Agy Self-Generated) will decrease because employer contributions will decrease.

**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 HB 33 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 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