2013 REGULAR SESSION
ACTUARIAL NOTE HB 33

House Bill 33 HLS 13RS-492 Original **Author: Representative J Kevin Pearson** **Date: March 27, 2013** **LLA Note HB 33.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR INCREASE FC GF & LF EX**	**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. 24:52.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/TEACHERS: Provides for continued payment of the unfunded accrued liability portion of employer contributions after participation ceases

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/(Savings) to Retirement Systems and OGB	$0
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.

Actuarial Cost to:	**Change in the Actuarial Present Value**
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	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**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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<u>Bill Information:</u>

Current Law

Under current law, an employer who terminates participation in Teachers' Retirement System of Louisiana (TRSL) is not required to pay its proportionate share of the unfunded accrued liability.

Proposed Law

Proposed law will require any employer participating in TRSL that terminates its participation in the retirement system for some or all of its employees to pay its proportionate share of the unfunded liability of the retirement system. Employers must pay their proportionate share if:

1. The employer terminates participation in TRSL for all of its employees, or

2. The employer eliminates positions through privatization, or

3. The employer converts a school or entity under the employer's jurisdiction to any other governance model or any other entity.

The payment amount will be calculated by the system's actuary as of the June 30 immediately prior to the employer's termination date. We have interpreted this to mean that the measurement will be based on assumptions and methods as of that date, but the measurement will be made after recognizing any adjustments to assets and liabilities occurring as a result of the employer withdrawal. The payment amount shall include any legacy costs attributable to the retirees of the employer. Should the employer disagree with the amount determined by the system's actuary, it may appeal to PRSAC. The Legislative Auditor will then make an independent determination of the amount due. PRSAC will then render a final determination.

The terminating employer may pay the determined amount in a single lump sum payment or may pay over a ten year period or less in equal monthly installments calculated using the valuation interest rate.

Implications of the Proposed Changes

An employer participating in TRSL that terminates its participation in the retirement system for some or all of its employees will be required to pay its proportionate share of the unfunded accrued liability as of the June 30 valuation date immediately prior to its separation. Given the cost that may be incurred, a TRSL participating employer will have to more carefully consider the full financial implications of its actions.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

Under HB 33, an employer must pay its proportionate share of the unfunded accrued liability, if any, when it takes action to terminate its participation in the retirement system for some or all of its employees. Currently, an employer that takes such action shifts responsibility for its UAL to all remaining employers. By doing so, the separating employer avoids paying for liabilities associated with its own workforce. HB 33 will correct this perceived inequity between employers.

The following occurs when a participating employer withdraws from TRSL. For this actuarial note, we have assumed that none of these calculations will be affected by HB 33. These calculations will be necessary regardless of whether or not HB 33 is enacted.

1. The actuarial present value of future benefit payments (APV) will decrease because employees of the terminating employer will not accrue any benefits after the withdrawal date.

2. The TRSL normal cost will be less because the employees of the terminating employer will not be accruing benefits.

3. The accrued liability for the terminating employer may increase or decrease. It will increase to the extent that employees who are eligible to retire will, in all likelihood, do so. It will decrease because liability calculations for some employees will be reduced once it is known that they will not accrue additional service and pay credits. The TRSL accrued liability after the employer terminates may be larger or smaller than it was before.

4. Similarly, the TRSL unfunded accrued liability may be larger or smaller once the terminating employer withdraws.

5. The payroll associated with active TRSL members will be smaller once the terminating employer withdraws.

For this actuarial note, we assume HB 33 will pertain, if after the above calculations are made, it is determined that TRSL still holds an accrued liability for employees of the terminating employer and that assets accumulated from contributions made by the terminating employer and its employees are not sufficient to offset that liability. The following will occur if HB 33 is enacted.

1. The terminating employer must pay to TRSL an amount equal to its portion of the unfunded accrued liability determined in the manner described above.

2. Alternatively, the employer may borrow from TRSL an amount equal to its share of the TRSL UAL and agree to pay back the loan over ten years with level installments based on the discount rate used by the system actuary for its most recent actuarial valuation.

3. If the terminating employer agrees to the loan, the state effectively becomes a co-signer to the loan. Should the terminating employer be unable to make the installment payments, the provisions of HB 33 require the state to make them instead.

HB 33 will have the following effect on the various actuarial cost components of TRSL.

1. The withdrawal of a participating employer from TRSL affects the present value of future benefit payments (APV). HB 33, however, has no effect on the APV.

2. The withdrawal of a participating employer from TRSL affects the total employer normal cost. HB 33, however, has no effect on normal costs.

3. The withdrawal of a participating employer from TRSL affects the TRSL accrued liability. HB 33, however, has no effect on the accrued liability.

4. The withdrawal of a participating employer from TRSL affects the unfunded accrued liability. HB 33 affects the TRSL unfunded accrued liability once the UAL has been measured after the withdrawal of the terminating employer has occurred. The new UAL amount is reduced by the terminating employer's proportionate share of that UAL as determined in accordance with HB 33.

5. Therefore, HB 33 will reduce the size of the amortization payment that must be made by non-terminating employers.

Other Post Retirement Benefits

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

Analysis of Fiscal Costs

Enactment of HB 33 will have the following effect on fiscal costs over the five-year fiscal measurement period.

Expenditures:

1. Expenditures from the General Fund associated with higher education employers will decrease because employer amortization payments will be reduced.

2. Expenditures from the General Fund will increase to the extent that the terminating employer is a higher education employer. Such an employer will be required to make a lump sum payment equal to its proportionate share of the unfunded accrued liability.

3. Expenditures from the General Fund will increase to the extent that the terminating employer is unable to pay its installment payments.

4. Expenditures from Local Funds will decrease for all non-terminating employers because employer amortization payments will be reduced.

5. Expenditures from Local Funds will increase to the extent that a terminating employer is a K-12 employer. Such an employer will be required to make a lump sum payment equal to its proportionate share of the unfunded accrued liability.

Revenues:

1. TRSL revenues (Agy Self-Generated) will decrease because employer amortization payment will be reduced.

2. TRSL revenues (Agy/Self Generated) will increase in years when an employer elects to withdraw from the retirement system. TRSL will receive that employer's proportionate share of the UAL as a lump sum payment or as a promissory note backed by state assets.

The timing of an employer's departure from participation in TRSL cannot be predicted. However, it is likely that such an event will occur within the first three years of the fiscal measurement period and it is likely that the increase in expenditures will exceed $100,000.

The fiscal cost table on page 1 shows an increase in expenditures for General Funds and Local Funds and an increase in revenues for TRSL (Agy Self-Generated). Increases in expenditures for years in which a participating employer withdraws from TRSL will be larger than decreases in expenditures for years when no employer withdraws. Even though a withdrawal may not occur every year during the measurement period, an increase in expenditures was reported every year merely to reflect the relative magnitude of the increase in expenditures that results when a withdrawal does occur.

TRSL reports that additional costs associated with HB 33 are insignificant and can be absorbed within its current budget.

The Legislative Auditor reports that its administrative costs will depend on the size of the organization that terminates its participation in TRSL. It will implement the provisions of HB 33 in the following manner in order to minimize administrative costs.

***Step 1* –** Review the procedures developed by the system's actuary to determine the cost.

***Step 2* –** If the procedures developed by the system's actuary are reasonable and appropriate in the opinion of the actuary for the Legislative Auditor (LLA actuary), he will audit the calculations made by the system's actuary and notify PRSAC of his approval of the calculations so made.

***Step 3* –** If the procedures developed by the system's actuary are not reasonable or are not appropriate in the opinion of the actuary for the Legislative Auditor, the LLA actuary will identify and summarize the differences of opinion in a report to PRSAC. PRSAC will then meet to review the alternative positions and render their decision. The LLA actuary will then audit the calculations made by the system's actuary and notify PRSAC of his approval of the calculations so made.

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**
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[ ] 6.8(F) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change