


**2014 REGULAR SESSION  
ACTUARIAL NOTE HB 36**

<p><b>House Bill 36 HLS 14RS-677 Original</b></p> <p><b>Author: Representative Sam Jones</b></p> <p><b>Date: April 29, 2014</b></p> <p><b>LLA Note HB 36.01</b></p> <p><b>Organizations Affected: State Police Retirement System</b></p> <p><b>OR +\$9,056,192 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 36 provides compliance with the requirements of R.S. 24:521.</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/COLAS: Provides a supplemental benefit increase to qualifying retirees and beneficiaries of the State Police Retirement System

**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	\$9,056,192
Total Five Year Fiscal Cost	
Expenditures	See Below
Revenues	\$0

**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/(Savings) to:</u></b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	\$9,056,192
Other Post Retirement Benefits	\$0
<b>Total</b>	<b>\$9,056,192</b>

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.

<b>EXPENDITURES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	See Below	See Below	See Below	See Below	See Below	See Below
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
<b>Annual Total</b>	<b>See Below</b>	<b>See Below</b>	<b>See Below</b>	<b>See Below</b>	<b>See Below</b>	<b>See Below</b>

<b>REVENUES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</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
<b>Annual Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

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**Bill Information:**

**Current Law**

Article 10(29)(F), enacted by the legislature and the voters in 2010, states “Benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment. No such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature.” Based on our reading of the amendment, our discussions with General Counsel for the LLA, and our discussions with legislative staff, we have concluded for the purposes of this actuarial note, that future transfers of investment gains to the Experience Account will occur until the balance in the Experience Account is equal to the cost of a 6% benefit increase for eligible retirees. However, because future COLA grants will require the introduction of a bill, approval by two-thirds of the House and Senate, and the signature of the governor, we assume that COLA grants are ad hoc, and are not automatic.

Current law provides a legal template that the legislature may choose to adopt in the enactment of permanent benefit increases (PBI). This template specifies eligibility criteria, which is generally age 60 with one year of retirement, and the basis for the amount of a PBI grant, which is the CPI-U. There is no requirement that PBI legislation follow the template. Nor is there any guarantee that PBIs in the future will even be based on the balance in the Experience Account.

The PBI template provides the following:

Eligibility:

The following retirees and beneficiaries of the State Police Retirement System (STPOL) will be eligible for a PBI.

1. Each retiree who satisfies all of the following criteria on June 30, 2014:
  - Has received a benefit for at least one year, and
  - Has attained at least age 60.
2. Each non-retiree beneficiary (including each survivor of a deceased active member) receiving a benefit on June 30, 2014, who satisfies all of the following criteria:
  - The deceased member or beneficiary or both combined have received benefits for at least one year, and
  - The deceased member would have been at least age 60 had he lived.
3. Each disability retiree and each beneficiary who is receiving benefits based on the death of a disability retiree, who also on June 30, 2014, has been receiving benefits for at least one year.

Permanent Benefit Increase

- Based on the template law, each eligible retiree and beneficiary would be eligible for a 1.5% PBI on the portion of a retirees/beneficiary’s benefit that is less than \$94,313.

In addition to the PBI granted above, template law also provides for a 2.0% supplemental PBI for retirees age 65 and older. The supplemental PBI will be paid on the portion of a retiree/beneficiary’s benefit that is less than \$94,313.

**Proposed Law**

HB 36 provides that the entire balance in the Experience Account on July 1, 2014 to be used to provide permanent benefit increases to eligible retirees. The 2% supplemental PBI to eligible employees above 65 is not authorized under HB 36. It is estimated that the total amount of increase that can be granted under HB 36 is 3.0% x the current annual benefit of eligible retirees and beneficiaries. The permanent benefit increase will be based on the first \$94,313 of the benefit that is currently payable. In other words, the maximum permanent benefit increase that may be granted is \$2,829.39.

The benefit increase provided by HB 36 shall become effective July 1, 2014.

**Implications of the Proposed Changes**

As a result of HB 36, amounts in the STPOL Experience Account will be used to provide permanent benefit increases for eligible retirees and beneficiaries age 60 and older. The 2% supplemental benefit for retirees and beneficiaries age 65 and older will not be provided.

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**Cost Analysis:**

**Analysis of Actuarial Costs**

**Retirement Systems**

The actuarial present value of future benefits to STPOL eligible retirees will increase by \$9,056,192 if HB 36 is enacted.

<b>Eligible Members</b>	<b>Number</b>	<b>Increase in Accrued Liability</b>
Retirees with one year of retirement age 60 and older	676	\$ 6,602,000
Beneficiaries and Survivors	339	2,014,508
Disability Retirees	54	439,684
<b>Total</b>	<b>1,069</b>	<b>\$ 9,056,192</b>

If HB 36 is enacted, \$9,056,192 will be transferred from the Experience Account to the Regular Benefit Account to offset the additional liability incurred by the retirement system. Employer contribution requirements will not change.

**Other Post Retirement Benefits**

There are no actuarial costs associated with HB 36 for post-employment benefits other than pensions.

**Analysis of Fiscal Costs**

HB 36 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will not change.
2. Expenditures from STPOL (Agy Self-Generated) will increase beginning FYE 2015 as larger pension benefits are distributed. There will be an outflow of funds from the System for the PBI payments to eligible retirees and beneficiaries in the following amounts by year.

<b>Fiscal Year</b>	<b>Increase in STPOL Expenditures</b>
2014-15	\$ 813,805
2015-16	787,910
2016-17	759,766
2017-18	730,566
2018-19	702,214
<b>Total</b>	<b>\$ 3,794,261</b>

3. Expenditures from Local Funds will not change.

Revenues:

1. STPOL revenues (Agy Self-Generated) will not change. Assets in the Experience Account will be transferred to the Regular Benefit Account to cover the additional liability associated with the enactment of HB 36.

**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 36 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.

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**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