


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 53**

<p>House Bill 53 HLS 13RS-434 Original</p> <p>Author: Representative Alan Seabaugh Date: April 22, 2013</p> <p>LLA Note HB 53.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR -\$1,100,000 APV</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 53 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/TEACHERS: Removes certain members from eligibility for membership in the Teachers' Retirement System of Louisiana and provides for a refund of employee contributions to those members

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	\$ (1,100,000)
Total Five Year Fiscal Cost	
Expenditures	\$ 210,000
Revenues	\$ (520,000)

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/(Savings) to:	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	\$ (1,100,000)
Other Post Retirement Benefits	\$ 0
Total	\$ (1,100,000)

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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	210,000	0	0	0	210,000
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	\$ 210,000	\$ 0	\$ 0	\$ 0	\$ 210,000

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	0	(130,000)	(130,000)	(130,000)	(130,000)	(520,000)
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	\$ (130,000)	\$ (130,000)	\$ (130,000)	\$ (130,000)	\$ (520,000)

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Bill Information:

Current Law

Under R.S. 11:701(33)(viii) of current law, a “teacher” eligible to become a member of the Teachers’ Retirement System of Louisiana (TRSL) includes the director, secretary, staff members, or any other individual employed by Louisiana High School Athletic Association (LHSAA) on or before June 30, 2011.

1. Any individual employed by LHSAA on or before June 30, 2011, shall be required to participate in TRSL if the individual has a valid Louisiana teacher’s certificate.
2. Any individual employed by LHSAA on or after July 1, 2000, and on or before June 30, 2011, shall not be required to participate in TRSL if the individual did not have a valid Louisiana teacher’s certificate.

Proposed Law

HB 53 repeals R.S. 11:701(33)(viii) of current law and as a result current members of TRSL who are employed by LHSAA will no longer be able to participate in the retirement system. HB 53 further specifies that pension benefits accumulated under TRSL by such employees of LHSAA will be discharged in the following manner:

1. Any such active member will have all his service credits with TRSL abolished.
2. Any such active member of TRSL will be refunded an amount equal to his employee contributions accumulated without interest.
3. Employer contributions and all accumulated investment earnings on employee and employer contributions shall be retained by TRSL.

Implications of the Proposed Changes

HB 53 removes all employees of LHSAA from membership in TRSL and refunds their employee contributions without interest.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The Supreme Court recently ruled that LHSAA is a private entity, and not a public or a quasi-public entity. However, before being declared a private entity, LHSAA was a participating employer in TRSL and some or all of its employees became members. HB 53 removes all LHSAA employees from TRSL and refunds all employee contributions without interest.

If HB 53 is enacted, eight employees of LHSAA would potentially lose their right to participate in TRSL. Observations about these members are provided below:

1. One member has already applied for retirement with an early June 2013 effective date. This employee of LHSAA would lose his or her pension if HB 53 is enacted and the governor signs the bill before the scheduled June retirement date. The individual would only be entitled to a refund of employee contributions without interest.
2. Two members who are eligible to retire will in all likelihood retire immediately regardless of whether or not HB 53 is enacted in order to preserve their pension rights with TRSL. They will be able to retire as long as their effective retirement date occurs before the bill becomes law.
3. One member has not accumulated enough service to be entitled to a deferred vested pension. His only entitlement would be a refund of employee contributions without interest.
4. One employee has accumulated enough service to be entitled to a deferred pension. However, his employee contributions without interest have more value than a deferred pension.
5. Three employees have accumulated enough service to be entitled to deferred pensions that have values exceeding employee contribution amounts. If HB 53 is enacted, these employees would be denied deferred compensation which they have already earned. However, they would have their own contributions refunded without interest.

Enactment of HB 53 will have the following effect on actuarial cost factors assuming the three members eligible to retire will do so before HB 53 becomes law. In making our estimates, we have assumed that the three employees will retire immediately merely because of the threat of HB 53 and therefore will be unaffected by the enactment of HB 53.

1. The actuarial present value of future benefits for TRSL will decrease by about \$1,100,000.
2. The TRSL accrued liability will decrease about \$560,000.
3. TRSL assets will decrease about \$210,000 because employee contributions will be refunded.

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4. The TRSL unfunded accrued liability will decrease about \$350,000.
5. Annual employer contributions to TRSL will decrease about \$100,000.
6. Annual employee contributions to TRSL will decrease about \$30,000.

HB 53 may be subject to challenges regarding its constitutionality. Although the Supreme Court ruled that LHSAA is a private entity, and not a public or a quasi-public entity, it did not address how or whether the state should remove LHSAA from any of the state retirement benefit programs. At least three employees of LHSAA will be denied deferred compensation amounts, above and beyond their own contributions, they thought they had already earned. If the constitutionality of HB 53 is challenged, the state or TRSL may incur legal costs to defend the provisions of the law denying the rights of these employees.

Other Post Retirement Benefits

It is expected that actuarial costs associated with post-employment benefits other than pensions will decrease if employees of LHSAA participate in group life and health insurance programs that provide benefits subsequent to retirement. However, if LSHAA is providing such benefits, it is doing so as a private employer and not through any government programs of the state or its political subdivisions.

Analysis of Fiscal Costs

HB 53 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from TRSL (Agy Self-Generated) will increase about \$210,000 in FYE 2014 as refunds are provided to the five employees LHSAA who will receive a refund of employee contributions without interest.
2. Expenditures from TRSL will increase to the extent that administrative costs will be incurred to purge LHSAA employees from membership in the system. TRSL has reported that these expenses will be small and will be accommodated with exiting administrative allocations.
3. Expenditures from LHSAA will decrease because it will no longer be necessary for the organization to contribute to TRSL. However, because LHSAA is a private entity, expenditures from local funds will not change.
4. Expenditures from Local Funds will decrease to the extent that employer contribution requirements will decrease. A decrease occurs because the UAL, and amortization payments related thereto, will be smaller. The decrease in expenditures will be small to the point of being negligible.

Revenues:

1. TRSL revenue (Agy Self-Generated) will decrease because it will no longer receive contributions from LHSAA or its employees.
2. TRSL revenues (Agy Self-Generated) will decrease to the extent that employer contribution requirements will decrease. A decrease occurs because the UAL, and amortization payments related thereto, will be smaller. The decrease in revenues will be small to the point of being negligible.

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 \geq \$100,000 Annual Fiscal Cost
- 13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

- 6.8(F) \geq \$500,000 Annual Fiscal Cost
- 6.8(G) \geq \$500,000 Annual Tax or Fee Change