


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 6**

| | |
|---|--|
| <p>House Bill 6 HLS 14RS-305 Engrossed F with HRC #2342, SFCA # 4045 and SLBA #4222</p> <p>Author: Representative J. Kevin Pearson Date: May 15, 2014 LLA Note HB 6.03</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>EGF INCREASE FC SG LF EX</p> | <p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 6 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> |
|---|--|

Bill Header: RETIREMENT/TEACHERS: Establishes a minimum employer contribution rate for the Optional Retirement Plan in the Teachers' Retirement System of Louisiana

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 | \$0 |
| Total Five Year Fiscal Cost | |
| Expenditures | Increase |
| 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.

| <u>Actuarial Cost (Savings) to:</u> | <u>Increase (Decrease) in The Actuarial Present Value</u> |
|--|--|
| 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 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 2018-2019 | 5 Year Total |
|---------------------|----------------|----------------|----------------|------------------|------------------|---------------------|
| 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 | 198,555 | 198,555 | 198,555 | 198,555 | 198,555 | 992,775 |
| Annual Total | See Below | See Below | See Below | See Below | See Below | See Below |

| REVENUES | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 2018-2019 | 5 Year Total |
|--------------------|----------------|----------------|----------------|------------------|------------------|---------------------|
| 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 |

**2014 REGULAR SESSION
ACTUARIAL NOTE HB 6**

Bill Information:

Current Law

There are two sub plans applicable to higher education members of the Teachers' Retirement System of Louisiana (TRSL).

1. A traditional defined benefit plan for members first employed on or before June 30, 2013, and
2. An alternative defined contribution plan – referred in law as the Optional Retirement Plan (ORP) – that may be elected by any employee in higher education at the time of employment in lieu of participating in the traditional defined benefit plan.

The total employer contribution rate for employees in higher education consists of an employer normal cost rate and an employer unfunded accrued liability (UAL) rate. A member who elects to participate in ORP contributes the same amount annually as he would have been required to contribute had he not elected ORP. Similarly, his employer contributes to ORP on his behalf the same employer normal cost rate that it would have been required to contribute had the member not elected ORP. The employer contributes the employer UAL contribution to TRSL regardless of whether or not the employee has elected to participate in ORP.

Employee and employer normal cost rates for FYE 2014 applicable to K-12 members and higher education members of TRSL are summarized below.

Employee and Employer Normal Cost Rates for FYE 2015

| Member Group | Employee Contribution Rate | Employer Normal Cost Rate |
|--------------------------|-----------------------------------|----------------------------------|
| K-12 Members | 8.0% | 5.2545% |
| Higher Education Members | 8.0% | 3.6658% |

Note: These contribution rates pertain regardless of whether the employee elected or did not elect to participate in ORP.

Employee and employer contributions are remitted to TRSL regardless of a member's ORP election. TRSL retains the contributions if a member did not elect ORP. TRSL forwards employee contributions and employer normal cost contributions made on behalf of ORP members to the vendors engaged to provide defined contribution and investment services.

Proposed Law

From July 1, 2014, through June 30, 2018, the employer normal contribution rate for each ORP participant of TRSL employed in higher education will be equal to an amount determined annually by each higher education board. However, the rate may not be less than the employer normal cost rate applicable to non-ORP members employed in higher education.

Effective July 1, 2018, the employer normal contribution rate for each ORP participant of TRSL employed in higher education will be equal to an amount determined annually by each higher education board. However, the rate may not be less than 6.2%.

Effective July 1, 2014, the employer normal contribution rate for each ORP participant of TRSL employed in K-12 will be equal to the greater of the employer normal cost rate applicable to non-ORP members (currently 5.2545%) and 6.2%.

Funding for the provisions of HB 6 will be provided by each board for an institution of higher education and by the boards for each school district after it has received its budgeted allocations from the General Fund.

Implications of the Proposed Changes

If HB 6 is enacted, members of TRSL participating in ORP will receive a larger employer contribution than they would have received otherwise.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

There are about 7,500 members of TRSL who participate in ORP. The projected payroll for FYE 2015 for members of ORP employed in K-12 is about \$21,000,000 and the projected payroll for ORP members employed in higher education is about \$528,000,000. The effect that HB 6 will have on employer contribution requirements to TRSL is discussed below.

1. The ORP employer contribution rate for teachers employed in K-12 will be the greater of 6.2% or the normal cost rate applicable to non-ORP K-12 teachers (5.2545% of pay for FYE 2015). For the purposes of this actuarial note, we assume this 5.2545% rate will not increase in the future. As a result of HB 6, annual expenditures from Local Funds will increase \$198,555 [(6.2000% - 5.2545%) x \$21,000,000].

**2014 REGULAR SESSION
ACTUARIAL NOTE HB 6**

2. A board for an institution of higher education, through the end of the 2017-18 fiscal year, may select an employer contribution rate for its employees participating in ORP that is 3.6658% or larger. Beginning for FYE 2019, the minimum rate that may be set is 6.2000%. Expenditures for an institution of higher education that sets a rate higher than 3.6658% will be greater than expenditures would have been under current law. Various rates could be established by the boards. Cost increases associated with rates that are perhaps most likely are summarized below assuming all boards elect the same rate.

| Rate Established by All Higher Education Boards | | Additional Annual Cost | |
|---|--|------------------------|--|
| Rate | Basis for the Rate Selection | Cost | Cost Formula |
| 3.6658% | Current rate | \$ 0 | n/a |
| 4.6658% | Rate 100 basis points higher than current rate | 5,280,000 | $(4.6658\% - 3.6658\%) \times \$528,000,000$ |
| 5.2545% | Rate for K-12 teachers in not in ORP | 8,388,336 | $(5.2545\% - 3.6658\%) \times \$528,000,000$ |
| 6.2000% | Rate for K-12 teachers in ORP | 13,380,576 | $(6.2000\% - 3.6658\%) \times \$528,000,000$ |

Other Post-Employment Benefits

There are no actuarial costs associated with HB 6 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

Funding for the provisions of HB 6 will be provided by each board for an institution of higher education and by the boards for each school district after it has received its budgeted allocations from the General Fund.

HB 6 will have the following effect on fiscal costs.

Expenditures:

1. Annual expenditures by institutions of higher education (Agy Self-Generated) will increase from \$0 to \$13 million or more depending upon rates of contributions established by each board for institutions for higher education.
2. Expenditures from TRSL (Agy Self-Generated) will not change. TRSL is merely acting as a conduit, collecting contributions from employers and immediately forwarding the appropriate amount to ORP vendors.
3. Expenditures from Local Funds will increase \$198,555 a year.

Revenues:

- TRSL revenues (Agy Self-Generated) will not change. TRSL is merely acting as a conduit, collecting contributions from employers and immediately forwarding the appropriate amount to ORP vendors.

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 6 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 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