


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 60**

<p>House Bill 60 HLS 16RS-390 Original</p> <p>Author: Representative Blake Miguez Date: April 7, 2016</p> <p>LLA Note HB 60.01</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>OR INCREASE 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 60 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: Provides relative to the reemployment of retired school nurses in positions covered by the Teachers' Retirement System of La.

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	Increase
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.

<u>Actuarial Cost to:</u>	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	See Analysis
Total	Increase

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.

EXPENDITURES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Increase	Increase	Increase	Increase	Increase

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 60**

Bill Information:

Current Law

Current law suspends the benefits of a reemployed retired member of the Teachers' Retirement System of Louisiana (TRSL) unless he is reemployed in a Reemployment-Eligible Position which is defined as:

1. A position as a substitute classroom teacher in a school where a critical shortage exists;
2. A position assigned to instructing adults through an adult program or literacy program administered through a public institution of elementary or secondary education, provided the instructor has a valid Louisiana teaching certificate; and
3. A position as an adjunct professor.

Benefits payable to a retiree reemployed in a Reemployment-Eligible Position are subject to the following suspension of benefit rules.

1. If a retiree is reemployed in a Reemployment-Eligible Position before the first anniversary of his original date of retirement, the retiree's benefit will be suspended until the earlier of the date he terminates reemployment and the first anniversary date of his original retirement.
2. If a retiree is reemployed in a Reemployment-Eligible Position and he is not subject to the suspension of benefit rule set forth above in Item 1, the retiree may be reemployed in a Reemployment-Eligible Position and earn an income. However, the income he receives may not exceed 25% of his pension benefit. If he earns more than 25% of his pension benefit, then his pension benefit will be reduced \$1 for each dollar he earns in excess of the 25% limit.

Proposed Law

HB 60 adds the position of school nurse to the list of reemployment-eligible positions.

Implications of the Proposed Changes

HB 60 permits a retired school nurse of TRSL to return to work and continue to receive a retirement benefit under certain circumstances.

Cost Analysis:

Analysis of Actuarial Costs

HB 60 contains a benefit provision having an actuarial cost. An explanation is given below.

Retirement Systems

The present value of future benefits, the accrued liability, and annual expenditures from TRSL will increase as a result of HB 60 because:

1. Some retired school nurses will experience a life circumstance making it necessary to return to work in order to have more income.
2. Under current law, such a retired school nurse will not be considered to be a "Retired Teacher" and his pension benefit will be suspended.
3. Under HB 60, the retired school nurse will be considered to be a "Retired Teacher" and his pension benefit will not be suspended.
4. Under these circumstances, TRSL will pay more in benefits under HB 60 than it would have paid under current law.

The number of retired school nurses reemployed because of adverse life circumstances is not likely to vary much from year to year. However, national economics could cause greater fluctuations in the number of reemployments.

According to information provided by TRSL, there are 1,381 school nurse positions in Louisiana. The number of retired school nurses is not known.

We estimate a cost for HB 60 based on the following analysis.

Situation

1. A retired school nurse returns to employment after being retired for one year because his life circumstances have changed and he needs additional income.
2. His pension benefit is \$30,000 a year.

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 60**

3. He returns to work as a school nurse on a full time basis and earns \$48,000 a year.

Analysis under Current Law

1. The annual income of the reemployed retired school nurse will only increase \$18,000 a year because he will earn \$48,000 but will forfeit his \$30,000 annual pension benefit from TRSL.
2. A retired school nurse must have a very compelling financial hardship to return to work under these conditions.
3. It is not likely that many retired school nurses will return to work under current law.
4. But, if he does, TRSL will save \$30,000 a year.

Analysis under HB 60

1. The annual income of the reemployed retired school nurse will increase \$25,500 a year because he will receive \$7,500 from TRSL and \$48,000 from employment.
2. Under these conditions a retired school nurse is more likely to be induced to return to work.
3. If he does return to work, TRSL will save \$22,500 a year.

Conclusions

1. Under HB 60, TRSL will pay the reemployed retired school nurse \$7,500 a year.
2. Under current law, TRSL will pay nothing to the reemployed retired school nurse.

In light of the above information and analysis and if we assume 5 retired school nurses will be reemployed on a full time basis each year, we expect the annual cost associated with HB 60 to be about \$37,500.

Other Post Retirement Benefits

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers remains the same regardless of the employment status of a retiree. The liability is based on the present value of estimated claims and estimated claims will not change just because the member's status has changed from retiree to employee. However, depending on OGB rules or rules of other insurers providing health insurance coverage to TRSL members, the allocation of premiums between the employee and the employer may change as an employee moves from a retired status to an active reemployed status. Therefore:

1. OGB revenues may increase or decrease as a result of HB 60.
2. Employer premium expenditures may increase or decrease as a result of HB 60.

Analysis of Fiscal Costs

HB 60 will have the following effect on fiscal costs over the next 5 years.

Expenditures:

1. Expenditures from Local Funds and General Revenues will increase to the extent that local funds and the MFP for K-12 will need to be adjusted to accommodate greater retirement plan costs.
2. Expenditures from TRSL (Agy Self-Generated) are estimated to increase to pay for benefits to those who would have otherwise had their benefits completely suspended.

Revenues:

- TRSL revenues (Agy Self-Generated) are expected to increase as employer contribution rates are increased to accommodate the estimated increase in annual costs.

The effect of HB 60 on the present value of future benefits and the actuarial accrued liability cannot be measured by valuation models. We estimate the net effect on fiscal costs will be about \$37,500 a year. Actuarial losses will occur as retired school nurses are reemployed. Such losses cannot be measured and therefore will be amortized over the same period as other actuarial losses.

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 adopted 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.

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 60**

Actuarial Caveat

There is nothing in HB 60 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