


**2013 REGULAR SESSION
ACTUARIAL NOTE FOR HB 729**

<p>House Bill 729 HLS 13RS-1266 Engrossed</p> <p>Author: Representative J. Kevin Pearson Date: May 17, 2013</p> <p>LLA Note HB 729.02</p> <p>Organizations Affected: State Retirement Systems except State Police Retirement System</p> <p>EG DECREASE 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 729 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/STATE SYSTEMS: Relative to the cash balance plan for certain state employees.

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

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>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	200,000	0	0	0	0	200,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	\$ 200,000	Decrease	Decrease	Decrease	Decrease	Decrease

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	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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Bill Information

THIS ACTUARIAL NOTE COMPARES HB 729 WITH CURRENT LAW WHICH INCLUDES ACT 483 OF THE 2012 REGULAR SESSION OF THE LEGISLATURE.

Proposed Law vs. Current Law

HB 729 contains one significant change and many technical changes to the cash balance plan. The most significant change is summarized below.

1. The current cash balance plan provides that a member's account balance will be adjusted annually for interest credits under the cash balance plan. These credits are equal to the rate of return on the actuarial value of assets minus 100 basis points. In no event will the interest credit be less than 0%.
2. The proposed cash balance plan also provides that a member's account balance will be adjusted annually for interest credits. These credits will also be equal to the rate of return on the actuarial value of assets minus 100 basis points. However, in no event will the interest credit be less than 0% **or more than 10%**.

HB 729 makes the following technical changes to the cash balance plan (CBP) to clarify provisions of Act 483 of the 2012 regular session of the legislature.

1. LASERS Judges Membership Rules
 - a. A judge first elected to a position specified in R.S. 11:553(1), (3)-(5), (7), or (10)-(15) on or after July 1, 2014, will not be required to participate in the CBP.
 - b. The CBP shall be optional for such members.
2. Rules Pertaining to Members who Change Employment within Louisiana Government.
 - a. A state employee is first employed in a position on or after July 1, 2014, and such employment makes him eligible for membership in a state system that does not have a CBP. He later becomes employed in a position that would otherwise be covered by a CBP. The member shall have the option of joining the CBP. The following rules will apply if the member elects to join the CBP.
 - 1) The member's years of service and final average compensation under his prior system or plan will be frozen.
 - 2) The member may not transfer his prior system or plan service credits and final average compensation to the CBP.
 - 3) The member's account balance and service credits in the CBP will start from zero.
 - 4) The member will have dual membership in the CBP and the prior system or plan.
 - 5) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the prior system or plan but not for benefit calculation purposes.
 - b. Rules Pertaining to Hazardous Duty Service Plan (HDSP) membership and CBP membership.
 - 1) No member of HDSP may elect to join the LASERS CBP while employed in a position covered by the HDSP.
 - 2) If a member of any CBP becomes employed in a position covered by the Hazardous Duty Service Plan (HDSP), then:
 - a) The member must become a member of the HDSP and cease being a member of the CBP.
 - b) The member's account balance in the CBP is frozen. He will receive no additional pay or interest credits.
 - c) The member may not transfer his CBP account balance or his service credits to the HDSP.
 - d) The member will have dual membership in the CBP and the HDSP.
 - e) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the HDSP but not for benefit calculation purposes.
 - 3) If a member of the HDSP first employed on or after July 1, 2014, becomes employed in a position covered by any CBP, then:
 - a) The member must become a member of the CBP and cease being a member of the HDSP.
 - b) The member's years of credited service and final average compensation in the HDSP shall be frozen.
 - c) The member may not transfer his HDSP service credits and final average compensation to the CBP.

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- d) The member's account balance and service credits in the CBP will start from zero.
 - e) The member will have dual membership in the CBP and the HDSP.
 - f) Service earned in the CBP will be treated as service for the purpose of benefit eligibility under the HDSP but not for benefit calculation purposes.
- c. A member of a CBP of one system becomes employed in a position covered by the CBP of another system. Such a person will have the following options.
- 1) The member may withdraw his account balance from the CBP of the first system and transfer it to the CBP of the second system.
 - a) All years of the member's service with the first system shall be transferred to the second system.
 - b) The second system will be responsible for any disability or survivor benefits to which the member may become entitled.
 - 2) The member may leave his account balance in the CBP of the first system and his account balance in the CBP of the second system will start at zero. He will receive recognition for service credits under both systems to obtain eligibility for disability or survivor benefits.
- d. TRSL ORP Membership Rules
- 1) Any member of a CBP employed in a position covered by ORP may elect to participate in ORP.
 - 2) The member may withdraw his employee contributions without interest from the CBP if he has less than 5 years of service or his account balance in the CBP if he has five or more years of service. These funds must be transferred to the ORP account balance.
- e. If a member of a CBP becomes employed in a position covered under a system that does not have a CBP, then:
- 1) The member may elect to remain a member of the CBP of the first system, or
 - 2) The member may elect to become a member of the second system. His account balance in the CBP shall be frozen. He will receive service credit in the second system for benefit eligibility purposes, but not for the calculation of benefits.
- f. No member of a CBP will be allowed to transfer to the CBP benefits earned under a DB plan.
- g. No member of a CBP shall be permitted to purchase service credits.
3. Vesting Rules
- a. A member of a CBP shall be entitled to a refund of his employee contributions without interest if his period of active service in the CBP upon termination of employment is less than 5 years.
 - b. A member of a CBP shall be entitled to his account balance in the CBP if his period of active service in the CBP upon termination of employment exceeds 5 years.
4. Disability Retirement Rules
- a. Rules pertaining to a CBP member who receives a Tier 1 disability benefit.
 - 1) The member's account balance shall be retained by the retirement system until his death and then it will be forfeited.
 - 2) If the member's disability ceases and he does not return to active service, then the member has the following options.
 - a) The member will receive his account balance minus the sum of all of disability benefits he has received, or
 - b) The member will receive an annuity based on his account balance when he became disabled minus the sum of all disability benefits he has received.
 - 3) If the member's disability ceases and he returns to active service, then:
 - a) The member's account balance at the time of his disability shall be restored.
 - b) He shall resume earning interest and pay credits.
 - 4) The period of time the member was disabled shall not be considered active service. His account balance is frozen throughout the period of his disability.

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- b. Special rules pertaining to a CBP member who becomes disabled after attaining retirement eligibility or who attains retirement eligibility after being retired for disability. Such a member will have the following options.
 - 1) The member may receive or continue to receive the Tier 1 benefit to which he is entitled. If he elects this option:
 - a) His account balance will be forfeited.
 - b) If he subsequently returns to active service, his service credits will be re-established but his account balance will begin at zero.
 - 2) The member may retire under the CBP.

5. Dual Membership

- a. Any member of a DB plan who also is a member of a CBP shall be considered to be a member of both plans. Such a member is entitled to all options, obligations and benefits of each respective plan.
- b. The following terms have meaning relative to Dual Membership.
 - 1) Tier 1 Contributions – the sum of all employee contributions while a member of a DB plan excluding interest on the repayment of a refund.
 - 2) Dual Member – a member of any plan in a DB plan who is also a member of a CBP.
- c. A dual member who is an active contributing member of one plan or system will not be eligible to access account balances or benefits in the other system without withdrawal or retirement from both plans or systems.

The provisions of HB 729 will become effective for persons first employed on or after the July first that occurs at least 60 days following receipt by the Division of Administration of a favorable ruling from the IRS on the Social Security equivalency of the Cash Balance Plan. For the purposes of this actuarial note, we have assumed a July 1, 2014 implementation date.

Implications of the Proposed Changes

HB 729 provides that the interest credit in the CBP shall not exceed 10%. The bill makes other technical changes to the cash balance plan.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 729 places a 10% cap on interest credits to be granted under the CBP. As a result, the actuarial present value of future benefit payments will decrease. Employer contributions requirements will also decrease. Precise measurements of the decrease in cost cannot be determined.

HB 729 exempts future judges from participation in the cash balance plan and instead allows them to participate in the more expensive defined benefit plan applicable to judges first employed on or before July 1, 2014. However, the cost of allowing judges to be exempt from the cash balance plan is negligible relative to the decrease in cost associated with the 10% cap on interest credits.

The actuarial present value of future benefit payments associated with the technical provisions of HB 729 may increase or decrease. A precise measurement cannot be made. However, any increase or decrease in cost is negligible.

Other Post Retirement Benefits

The actuarial present value of future benefits associated with post-employment benefits other than pensions will decrease as a result of HB 729. A decrease will occur because retirement benefits are likely to be smaller. Smaller benefits will lead to delayed retirement and a reduction in the value of post-employment benefits.

Analysis of Fiscal Costs

HB 729 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

- 1. Expenditures from the State General Fund to LASERS and TRSL will decrease beginning in FYE 2015 because employer contribution requirements will decrease.
- 2. The retirement systems (Agy Self-Generated) report that they will incur the following additional costs in FYE 2014 for administrative expenses.

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- a. LASERS – An additional \$200,000 will be incurred to implement the changes required by HB 729.
 - b. TRSL – No additional expenses will be incurred to implement the changes required by HB 729.
 - c. LSERS – No information was reported.
3. Expenditures from Local Funds to TRSL will decrease beginning in FYE 2015 to the extent that employer contribution requirements for K-12 employers decrease.

Revenues:

- 1. Revenues to LASERS, TRSL and LSERS will decrease beginning in FYE 2015 to the extent that employer contribution requirements decrease.

Other Considerations

The effects of the cash balance plan relative to current DB plan provisions will not be felt by stakeholders to the retirement systems until the CBP is implemented at some point in the future. The cash balance plan, as modified by HB 729, is actuarially cost neutral relative to the DB plan.

Actuarial Caveat

Unless indicated otherwise, the actuarial analyses contained in this actuarial note are based on the assumptions and methods used in the preparation of the June 30, 2012 valuation reports for LASERS and TRSL.

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