2016 REGULAR SESSION
ACTUARIAL NOTE HB 907

House Bill 907 HLS 16RS-1141
Original

Author: Representative Harvey LeBas
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LLA Note HB 907.01

Organizations Affected:
Teachers' Retirement System of Louisiana

OR +$6,000,000 FC SG EX

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 907 provides compliance with the requirements of R.S. 24:521

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Bill Header: RETIREMENT/TEACHERS: Increases the earnings allowed in the Teachers' Retirement System of La. for retirees who are reemployed as substitute classroom teachers.

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	$75,000,000
Total Five Year Fiscal Cost	
Expenditures	$54,026,000
Revenues	$24,013,000

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 to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	$75,000,000
Other Post Retirement Benefits	Increase
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	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	6,013,000	6,000,000	6,000,000	6,000,000	6,000,000	30,013,000
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	6,013,000	6,000,000	6,000,000	6,000,000	24,013,000
Annual Total	$ 6,013,000	$ 12,013,000	$ 12,000,000	$ 12,000,000	$ 12,000,000	$ 54,026,000

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	6,013,000	6,000,000	6,000,000	6,000,000	24,013,000
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	$ 6,013,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 24,013,000

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Bill Information:

Current Law

As a general rule under current law, the pension benefit for any retired member of the Teachers' Retirement System of Louisiana (TRSL) who is reemployed in a position covered by TRSL membership is suspended if the retiree is reemployed.

Current law provides that a retired member who returns to employment as a substitute classroom teacher who teaches any student in pre-K through 12th grade is exempt from the general rule. "Substitute classroom teacher" is defined as a classroom teacher employed in a temporary capacity to fill the position of another classroom teacher who is unavailable to teach for any reason.

The earnings of such a reemployed retiree, attributable to her reemployment, may not exceed the following:

1. The earnings limit is $0 during her waiting period which extends from the date of her original retirement to the first anniversary of her original retirement.

2. The earnings limit is 25% of her annual pension benefit during the fiscal year in which her waiting period ends and for any fiscal year thereafter.

TRSL will recover from the reemployed retiree any pension benefits paid in excess of these limits.

Proposed Law

Under HB 907 the earnings of a retiree re-employed as a substitute classroom teacher, attributable to her re-employment, shall not exceed the following.

1. The limit is $0 during her waiting period.

2. The limit is 25% of her annual pension benefit during the fiscal year in which her waiting period ends and for the fiscal year immediately following the year in which her waiting period ends.

3. The limit is 50% of her annual pension benefit during all other fiscal years.

TRSL will recover from the reemployed retiree any pension benefits paid in excess of these limits.

Implications of the Proposed Changes

HB 907 increases the earnings limitation from 25% to 50% for a retiree of TRSL who is reemployed as substitute classroom teacher. The 50% limitation will begin to apply for the second fiscal year following the end of the retiree's waiting period.

Cost Analysis:

Analysis of Actuarial Costs

HB 907 contains benefit provisions having an actuarial cost.

Retirement Systems

There are two cost components associated with HB 907

1. The increased cost associated with TRSL paying benefits to a substitute classroom teacher who earns more than 25% of her pension benefit in the second fiscal year following her retirement.

2. The increased cost associated with an expansion of the pool of teachers willing to return to work as a substitute classroom teacher and the related cost associated with teachers being induced to retire earlier than they would have otherwise and then returning to work as a substitute classroom teacher.

Item 1 Cost

According to TRSL, 45 retirees were reemployed as substitute classroom teachers during FYE 2014 and exceeded the earnings limit. 524 retirees were reemployed as substitute classroom teachers during FYE 2014 but did not exceed the earnings limit.

For the purpose of the Item 1 cost analysis, we have assumed the following:

1. The average pension benefit is $30,000 a year.

2. The average annual salary for a retiree who returns to work on a full time basis is $60,000 a year.

3. Retired teachers, reemployed as substitute classroom teachers, do not return to work until the beginning of the second full fiscal year of retirement.

4. If there were no earnings limitation, the retiree who returns to employment and work half time would have a total income of $60,000 ($30,000 of employment income and a $30,000 pension).

5. If the earnings limit is 25% x the annual pension benefit, the retiree's total income would be $37,500 ($30,000 of employment income and $7,500 from TRSL.

6. If the earnings limit is 50% x the annual pension, the retiree's total income will be $45,000 ($30,000 of employment income and $15,000 from TRSL.

If we assume 50 teachers are reemployed as substitute classroom teachers and they each earn more than 50% of their pension benefit, then the annual cost to expand the earning limit from 25% to 50% is estimated to be $375,000 per year. This is based on the following:

Annual Cost = 50 retirees x (50% new limit - 25% current limit) x $30,000 pension = $375,000

Each of the 524 retirees who were reemployed as a substitute classroom teacher self-limited her reemployment income to 25% of her pension benefit. If the earning limit is raised to 50%, the behavior of some of these reemployed retirees will not change but many will increase their employment to attain the 50% limit. In addition, some retirees will consider reemployment for the first time. The 25% limit was too restrictive to make reemployment worthwhile. But a 50% limit allows the retired teacher to make a meaningful contribution to the education of students. If we assume that 600 retirees will be employed as substitute classroom teachers and that each such retiree will earn 50% of her pension, then the annual cost will be $4,500,000. The annual cost calculation is shown below:

Annual Cost = 600 retirees x (50% new limit - 25% current limit) x $30,000 pension = $4,500,000

The total annual increase in cost to TRSL will be about $4,875,000, or about $4.9 million a year.

Item 2 Cost

Prior to 2000, pension benefits were suspended for any retiree who returned to work. About 3,500 retirees elected to be re-employed even though their pension benefit would be suspended. The law was changed in 2000 eliminating benefit suspensions. By 2010, the number of re-employed retirees had increased to 7,500.

Act 921 of the 2010 session restored benefit suspension rules to TRSL. However, the following exceptions were made:

1. A retiree who returned to active service as a classroom teacher in a critical teacher shortage area. Pension benefits would be suspended if re-employment earnings exceeded 25% of pay.

2. A retiree who was re-employed as a full time certified speech therapist, speech pathologist, or audiologist in any school district where a shortage of persons to fill such positions exists. Pension benefits were not suspended.

3. Pension benefits for a retiree who returned to active service on or before June 30, 2010 were not suspended.

Annual savings associated with Act 921 of the 2010 session were estimated to reach $108,000,000 within five years. The number of re-employed retired teachers has decreased significantly since 2010. And even though suspension-of-benefit rules have been relaxed to some extent since 2010, the number of re-employed retirees has decreased to about 5,000 a year and is still falling. The savings predicted in the actuarial note for Act 921 have been generally realized.

Currently, a retiree who returns to work as a substitute classroom teacher can work full time and for the fiscal year in which her waiting period ends and for every year thereafter can collect 25% of her pension from TRSL. Under HB 907, she will be able to work full time and collect 25% of her pension for the fiscal year in which her waiting period ends and for the fiscal year following the fiscal year in which her waiting period ends. Thereafter she will be able to collect 50% of her pension.

The increase in the earnings limit will tend to encourage teachers to retire earlier than they would have otherwise. However, because the increase will not occur until the third full fiscal year following her retirement date, HB 907's effect on retirement patterns will be small. As a teacher considers her retirement options, she may not be willing to retire and return to work if her pension is reduced to only 25% of the full amount. She may be much more willing to retire early if she can work full time and collect 50% of her pension. But because the limit does not apply until she has been retired at least two years, its influence on a teacher's willingness to retire is likely to be small.

If we assume that each fiscal year there are 100 teachers on the retiree payroll who are there because they were induced to retire as a result of HB 907, the cost associated with the inducement aspects of the bill is estimated to be $1,112,500 a year.

The development of the cost per teacher induced to retire early is summarized below:

1. We assume that 50 of the 100 teachers are employed during fiscal years in which the 25% limit applies and 50 are employed in fiscal years in which the 50% limit applies.

2. Fifty of these teachers will receive 25% of their pension that they would not have received otherwise and 50 will receive 50% of the pension that they would not have received otherwise.

3. The average pension is $30,000 a year.

4. Therefore, 50 teachers will be collecting $7,500 from TRSL that otherwise would not have been paid and 50 teachers will be collecting $15,000.

5. The annual cost of HB 42 is estimated to be $1,112,500 (50 x $7,500 + 50 x $15,000), or about $1.1 million.

Total Annual Cost

The total cost for HB 907 as analyzed above is estimated to be about $6,000,000 a year. Because there is no precise way to predict retirement behavior, the cost estimate is subject to significant variability. Therefore, we estimate the annual cost for HB 907 will range from $4 million to $8 million.

Assuming the additional annual cost continues indefinitely into the future, the actuarial present value cost is estimated to be about $75,000,000

Other Post-Employment Benefits

HB 907 will induce teachers to retire earlier then they would have otherwise. If they retire one year early and a portion of the retiree health insurance premium is paid for by the school district, the annual cost for post-employment benefits other than pensions will increase.

Analysis of Fiscal Costs

HB 907 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from TRSL (Agy Self Generated) will increase $4.0 to $8.0 million a year to pay pension benefits that would not otherwise have been paid.

2. Expenditures from Local Funds will increase about $4.0 to $8.0 million a year because employer contribution requirements must increase to pay for the larger annual cost.

3. Expenditures from Local Funds will increase to the extent that school districts pay a portion of annual premiums for retiree health insurance.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase to the extent that employer contributions must be larger to accommodate the estimated increase in costs.

According to TRSL, administrative costs associated with communicating the proposed legislation and making modifications to existing computer programs is estimated to be $13,000 for FYE 2017.

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 907 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

- [X] 13.5.1: Annual Fiscal Cost ≥ $100,000
- [ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000

House

- [X] 6.8(F)(1): Annual Fiscal Cost ≥ $100,000
- [ ] 6.8(F)(2): Annual Revenue Reduction ≥ $100,000
- [ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000