


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 907**

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| <p>House Bill 907 HLS 16RS-1141 Engrossed F with Senate Floor Legislative Bureau Amendment #3818</p> <p>Author: Representative Harvey LeBas Date: June 1, 2016 LLA Note HB 907.04</p> <p>Organizations Affected: Teachers' Retirement System of Louisiana</p> <p>EGF 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 907 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: Increases the earnings allowed in the Teachers' Retirement System of La. for retirees who are reemployed as substitute classroom teachers to fill certain vacancies.

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 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 | \$0 |
| 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 | 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 907**

Bill Information:

Current Law and Proposed Law

Current law provides suspension of benefit rules for retirees who are reemployed following retirement. Current law and proposed law under HB 907 are summarized below. Note, the following Special Classes of retirees are not specified as such in current law or in HB 907. However, the information pertaining to each Special Class was derived from current and proposed law.

| | Current Law | HB 907 |
|---------------------------|---|--|
| General Rule | <ol style="list-style-type: none"> 1. Benefits payable to a reemployed retiree will be suspended for the duration of his reemployment. 2. Benefits payable to a reemployed retiree who retired for disability will be suspended. | No Change |
| Rules for Special Class A | <p>A Special Class A retiree includes any retiree who is reemployed into one of the following positions for a district with a critical shortage of teachers willing to fill such positions.</p> <ol style="list-style-type: none"> 1. A full or part-time position as a Pre K-12 classroom teacher. 2. A full-time position as a certified speech therapist, speech pathologist, audiologist, educational diagnostician, or school counselor. <p>Limitations on Earnings for Special Class A Retirees</p> <ol style="list-style-type: none"> 1. Reemployment earnings will be limited to \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits will be reduced dollar for dollar for earnings received from reemployment during the 12-month period immediately following the date of retirement. 3. Thereafter, a retiree will be able to be employed and also receive benefits from TRSL. | No Change |
| Rules for Special Class B | <p>A Special Class B retiree includes any retiree who is reemployed as a result of an agreement between the retired teacher and his employer that satisfies the following conditions:</p> <ol style="list-style-type: none"> 1. The agreement was perfected prior to the retiree's dates of retirement, and 2. The agreement allows for the retiree to become reemployed within the 12-month period immediately following his date of retirement. <p>Limitations on Earnings for Special Class B Retirees</p> <ol style="list-style-type: none"> 1. The earnings limitation will be \$0 until the first anniversary of the retiree's date of reemployment. 2. Benefits from TRSL will be reduced dollar for dollar for any earnings received during the 12-month period immediately following his date of retirement. 3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL. | <p>No change except for:</p> <p>HB 907 changes "12-month period" to "36-month period"</p> <p>HB 907 changes "first anniversary" "third anniversary"</p> <p>HB 907 changes "12-month period" to "36-month period"</p> |

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 907**

| | Current Law | HB 907 |
|---------------------------|--|--|
| Rules for Special Class C | <p>A Special Class C retiree is one who satisfies one of the following conditions:</p> <ol style="list-style-type: none"> 1. A retiree who retired on or before June 30, 2010 2. A retiree who holds an advanced degree in speech therapy, speech pathology or audiology. <p>Limitations on Earnings for Special Class C Retirees</p> <ol style="list-style-type: none"> 1. The earnings limit will be \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received by the retiree during the 12-month period immediately following his date of retirement. 3. Thereafter, the retiree will be able to be reemployed and receive benefits from TRSL. | <p>No change except for:</p> <p>HB 907 changes "first anniversary" to "third anniversary"</p> <p>HB 907 changes "12-month period" to "36-month period"</p> |
| Rules for Special Class D | <p>A Special Class D retiree is employed into one of the following positions:</p> <ol style="list-style-type: none"> 1. A position as a substitute classroom teacher for a K-12 school who teaches any Pre K-12 student. 2. A position that has been assigned by a K-12 school district to the instruction of adults through an adult literacy program. 3. A position as a postsecondary educational institution as an adjunct professor. <p>Limitations on Earnings for Special Class D Retirees</p> <ol style="list-style-type: none"> 1. The earnings limitation will be \$0 until the first anniversary of the retiree's date of retirement. 2. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received by the retiree during the 12-month period immediately following his date of retirement. 3. The earnings limitation for the retiree for the period from the first anniversary of his date of retirement to the end of the fiscal year in which that anniversary date occurs will be 25% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received in excess of the limit during this period. 4. The earnings limitation for the retiree for fiscal years thereafter will be 25% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received during a fiscal year that exceeds the 25% limitation. | <p>No change except for:</p> <p>HB 907 adds "excluding positions being filled due to an extended leave" at the end of the sentence.</p> <p>HB 907 changes "first anniversary" to "third anniversary"</p> <p>HB 907 changes "12-month period" to "36-month period"</p> <p>HB 907 changes "first anniversary" to "third anniversary"</p> |

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 907**

| | Current Law | HB 907 |
|---------------------------|--------------------|--|
| Rules for Special Class E | Not Applicable | <p>HB 907 which adds Special Class E is summarized below</p> <p>A Special Class E retiree is employed into one of the following positions:</p> <ol style="list-style-type: none"> 1. A position as a substitute classroom teacher for a K-12 school district who teaches any Pre K-12 student and who is filling an extended leave vacancy. <p>Limitations on Earnings for Special Class E Retirees</p> <ol style="list-style-type: none"> 1. The earnings limitation will be \$0 until the third anniversary of the retiree's date of retirement. 2. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received by the retiree during the 36-month period immediately following his date of retirement. 3. The earnings limitation for the retiree for the period from the third anniversary of his date of retirement to the end of the fiscal year in which that anniversary date occurs will be 50% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received in excess of the limit during this period. 4. The earnings limitation for the retiree for fiscal years thereafter will be 50% of the retiree's annual benefit from TRSL. Benefits payable from TRSL will be reduced dollar for dollar for any earnings received during a fiscal year that exceeds the 50% limitation. |

Any retiree who returned to active service before May 15, 2016 will continue to be governed by return to work rules under current law.

Implications of the Proposed Changes

Current law pertaining to retirees reemployed by school districts with critical shortage areas is unchanged. A 12-month waiting period still applies. HB 907 lengthens the waiting period for all other reemployed retirees to 36 months.

HB 907 also adds a special class of reemployed retirees; retirees reemployed to fill an extended leave vacancy. After a 36 month waiting period, such a reemployed retiree may earn up to 50% of his annual benefits from TRSL without having his benefit from TRSL reduced.

Cost Analysis:

Analysis of Actuarial Costs

HB 907 contains benefit provisions having an actuarial cost.

Retirement Systems

Cost Components

There are three cost components associated with HB 907

1. **Component #1:** The change in cost associated with extending the waiting period from 12 months to 36 months.
2. **Component #2:** The change in cost associated with an expansion of the pool of teachers willing to return to work as a substitute classroom teacher filling an extended leave vacancy.
3. **Component #3:** The change in cost associated with providing the new class of retirees with a larger benefit (50% of the annual benefit from TRSL instead of 25%).

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 907**

Information obtained from TRSL

The following information was provided by TRSL and derived from other sources

1. During FYE 2015, 787 retirees were reemployed as substitute classroom teachers: 62 retirees had earnings that exceeded the 25% earnings limit; 725 retirees did not exceed the earnings limit.
2. During FYE 2014, 569 retirees were reemployed as substitute classroom teachers: 45 retirees had earnings that exceeded the 25% earnings limit; 524 retirees did not exceed the earnings limit.
3. About 3,500 retirees were reemployed in FYE 2001 even though a portion or all of their pension benefits were suspended.
4. Legislation was enacted in 2001 to substantially eliminate existing suspension of benefit rules. A retiree could work and still collect his pension benefit. By 2010, the number of reemployed retirees had increased to about 7,500.
5. As a result of Act 921 of 2010, retirees could no longer work and collect a pension from TRSL. Act 921 provided for only three exceptions to the general rule. However, the number of exceptions has increase because of legislation enacted during the 2011 through 2015 session.
6. Nevertheless, the number of reemployed retirees has decreased to about 5,400.

Assumptions

We used the following assumptions in our analysis of costs.

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. A retiree only works half time.

Component #1 Cost

Actuarial costs will be reduced as a result of the provisions of HB 907 that extend the reemployment waiting period for all retiree classifications (except Special Class A). Actuarial costs will be reduced because all inducements for an active member to retire earlier than otherwise under current law have been eliminated.

Component #2 Cost

HB 907 creates a new class of retirees who are reemployed as substitute classroom teachers and by doing so fill a position that resulted from an extended leave vacancy. The pool of retirees who may be willing be reemployed under these circumstances will increase because such a retiree can earn up to 50% of his pension under these circumstances. Cost implications can be determined by examining the following example:

Situation A

HB 907 is not enacted. A retiree chooses not to return to employment because the monetary reward is not worth the effort. He continues to receive his benefit from TRSL.

Situation B

HB 907 is enacted. The retiree decides to be reemployed as a substitute classroom teacher filling an extended leave vacancy. He continues to receive his benefit from TRSL as long as he limits his employment earnings to less than 50% of his pension benefit.

In either situation, TRSL continues to pay the retiree's pension. The Component #2 cost is \$0.

Component #3 Cost

HB 907 increases the employment earnings limit from 25% to 50% for a retiree reemployed as a substitute classroom teacher filling a position created by an extended leave vacancy. Cost implications can be illustrated by considering the following example:

Situation A

HB 907 is not enacted. A retiree is reemployed as a substitute classroom teacher and thereby is filling an extended leave vacancy. He earns \$30,000 from his reemployment. His pension benefit is \$30,000 a year. The earnings limitation under current law is \$7,500. The retiree's pension benefit is reduced dollar for dollar for earnings that exceed \$7,500. His employment earnings that exceed the earnings limit is \$22,500 (\$30,000 minus \$7,500). The retiree's benefit from TRSL is reduced to \$7,500 (\$30,000 minus \$22,500). The retiree's total income is \$37,500 (\$30,000 from employment and \$7,500 for TRSL).

Situation B

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 907**

HB 907 is enacted. The retiree employment earnings are \$30,000. His employment earnings are limited to 50% of his pension benefit, or \$15,000. His employment earnings that exceed the earnings limit is \$15,000 (\$30,000 minus \$15,000). TRSL reduces his pension benefit to \$15,000 (\$30,000 minus \$15,000). The retiree's total income is \$45,000 (\$30,000 from employment and \$15,000 from TRSL).

The conclusion is that HB 907 has a cost for every retiree who is reemployed as a substitute classroom teacher filing a position created by an extended leave vacancy and who is currently earning more than 25% of his pension benefit. As stated earlier in the actuarial note, 62 retirees had employment income that exceeded the current 25% threshold.

Total Annual Cost

The total net cost for HB 907 as analyzed above cannot be determined with any degree of certainty. Component #1 reduces costs; component #2 is cost neutral; and component #3 has an actuarial cost. Nevertheless, we estimate that there is a net actuarial cost associated with HB 907 and we estimate the annual fiscal cost will exceed \$100,000.

Other Post-Employment Benefits

HB 907 has no effect on actuarial costs associated with post-employment benefits other than pensions.

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 to pay pension benefits that would not otherwise have been paid.
2. Expenditures from Local Funds will increase because employer contribution requirements must increase to pay for the larger annual cost.

Revenues:

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

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.

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