2013 REGULAR SESSION
ACTUARIAL NOTE SB 16

Senate Bill 16 SLS 13RS-219 **Engrossed with House Retirement Committee Amendment #3544** **Author: Senator Gerald Long** **Date: May 28, 2013** **LLA Note SB 16.03** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **EG1 INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 16 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT SYSTEMS. Provides for the definition of "regular retirement plan" for higher education employees participating in the Teachers' Retirement System of Louisiana. (2/3 – CA10s29(F)) (gov sig)

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	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.

Actuarial Cost/(Savings) to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	$0
Total	Increase

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	Increase	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

Bill Information:

Current Law

There are three 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, (Tier 1 Plan),

2. A cash balance plan for members first employed on or after July 1, 2013,

3. 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 either the traditional defined benefit plan or the cash balance 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 higher education members of TRSL are summarized below.

Employee and Employer Contributions Requirements

For Higher Education Members First Employed	Employee Contribution Rate	Employer Normal Cost Rate
On or before June 30, 2013	8.0%	5.1839%
On or after July 1, 2013	8.0%	1.8000%

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 vendor engaged to provide defined contribution and investment services. Note: TRSL retains 5 basis points of employee contributions to ORP as an administrative fee.

Proposed Law

SB 16 provides the following for employees of boards of higher education who elect to participate in ORP rather than the cash balance plan:

1. Each board of higher education shall select annually an employer normal cost contribution rate for its employees participating in ORP that is no less than the normal cost rate applicable to higher education members of TRSL who elected to participate in the cash balance plan or more than the normal cost rate applicable to higher education members participating in the Tier 1 plan. A board of higher education will be permitted to select an employer rate for FYE 2014 for ORP that is not less than 1.8000% of pay or more than 5.1839%.

2. If a board of higher education fails to adopt an employer normal cost rate for ORP members in the manner provided under SB 16, the employer normal cost rate shall be the Tier 1 rate applicable to higher education members of TRSL (5.1839% for FYE 2014).

3. If an employee of higher education who is participating in ORP in lieu of participating in the cash balance plan becomes employed in a position that does not answer to a higher education board, then the employer's ORP normal cost rate for such a member of TRSL shall be the K-12 Tier 1 normal cost rate (which for FYE 2014 is 5.8216% of pay).

4. In addition to the contribution rates identified above, employers of higher education employees shall also remit to TRSL the employer UAL contribution for each employee participating in ORP. Note: SB 16 does not change current law in this regard.

The cash balance plan for higher education employees is scheduled for implementation on July 1, 2013. There are several pieces of legislation under consideration that would delay the implementation date. The rules summarized above for SB 16 will not apply until the cash balance plan is implemented either on July 1, 2013, or on some future date.

Implications of the Proposed Changes

If SB 16 is enacted, employees in higher education first employed on or after July 1, 2013, electing to participate in ORP will receive a larger employer contribution than they would have received without regard to SB 16.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

A board of higher education will select an employer normal cost rate to apply to its employees who elect to participate in ORP rather than the cash balance plan. The maximum rate such a board may select is 5.1839% for FYE 2014. However, the board may select a lower rate. The cost associated SB 16 is illustrated by the following examples.

Example 1: A higher education board selects the highest employer normal cost rate for ORP members.

For every 10 higher education employees first employed on or after July 1, 2013, who elect to participate in ORP, employers will contribute $20,303 more to ORP under SB 16 than they would have otherwise. This calculation, shown below, is based on the assumption that each member will earn $60,000 a year in FYE 2014.

10 members x $60,000 x (5.1839% - 1.8000%) = $20,303

Example 2: A higher education board selects an employer normal cost rate of 3.0000% of pay.

For every 10 higher education employees first employed on or after July 1, 2013, who elect to participate in ORP, employers will contribute $7,200 more to ORP under SB 16 than they would have otherwise. This calculation, shown below, is based on the assumption that each member will earn $60,000 a year in FYE 2014.

10 members x $60,000 x (3.0000% - 1.8000%) = $7,200

The actuarial present value of benefits (APV) payable to post 2013 ORP members will also increase. They will receive larger deposits into their individual ORP accounts and therefore benefits that ultimately become payable based on those accounts will be larger.

No unfunded actuarial accrued liabilities will be created by SB 16.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 16 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 16 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund will increase to the extent that employers of higher education employees first employed on or after July 1, 2013, who elect ORP may be contributing a larger amount than they would have otherwise.

2. Expenditures from TRSL (Agy Self-generated) will increase to the extent that amounts that must be forwarded to ORP vendors increase.

Revenues:

- TRSL revenues (Agy Self-generated) will increase to the extent that employers elect to contribute larger amounts on behalf of Post 2013 ORP members than is otherwise required.

We estimate that the sum of all General Fund expenditures in the first three years of the fiscal measurement period will exceed $500,000.

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	**House**
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[x] 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change