2016 REGULAR SESSION
ACTUARIAL NOTE SB 17

Senate Bill 17 SLS 16RS-78
Original

Author: Senator Barrow Peacock
Date: March 28, 2016

LLA Note SB 17.01

Organizations Affected:
Teachers' Retirement System of Louisiana

OR 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 17 provides compliance with the requirements of R.S. 24:521

Paul T. Richmond

Paul T. Richmond, ASA, MAAA, EA
Manager Actuarial Services

__Bill Header:__ TEACHERS RETIREMENT. Provides for optional retirement plan participants to become members of the regular retirement system. (6/30/16)

__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.

__Actuarial Cost to:__	__Change in the Actuarial Present Value__
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	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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

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<u>Bill Information:</u>

Current Law

Current law provides that academic and administrative employees of public institutions of higher education may elect to participate in the Teachers' Retirement System of Louisiana (TRSL) defined benefit plan (DB plan) or the Optional Retirement Plan (ORP), which is a defined contribution plan (DC plan). ORP was designed to provide employees in higher education with benefit portability. A new employee in higher education must elect the TRSL DB plan or the ORP DC plan within 60 days of his employment. The election is irrevocable.

Proposed Law

SB 17 provides that participants of the ORP DC plan, who are active contributing members of ORP on June 30, 2016, may make a one-time irrevocable election to transfer from ORP to TRSL's DB plan. This election will be implemented in accordance with the following:

1. The ORP DC participant must make his election to switch from the ORP DC plan to the TRSL DB plan on or before December 30, 2016. His decision must be in writing in a manner prescribed by the system.

2. Employer and employee contributions to the ORP DC plan will cease on January 31, 2017.

3. The participant who elects to participate in TRSL's DB plan will begin to accrue service credits on February 1, 2017. Electing participants and their employers will cease making contributions to the OPR DC plan on January 31, 2017 and begin making contributions to the TRSL DB plan on February 1, 2017.

4. The member will begin to accrue service credits under the TRSL DB plan beginning February 1, 2017.

Implications of the Proposed Changes

SB 17 gives a member of ORP DC plan, who made an irrevocable election to participate in the ORP DC plan, the right to revoke that election and become a participant in the TRSL DB plan effective February 1, 2017.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

SB 17 contains benefit provisions having an actuarial cost.

1. Under current law, no member of ORP DC plan will receive a benefit from the TRSL DB plan. Under SB 17, all ORP DC plan members who switch to the TRSL DB plan will receive a benefit from the TRSL DB plan.

2. When given a choice, an employee will generally make a decision that is best for his own individual circumstances. Therefore, an employee participating in the ORP DC plan will not switch to the TRSL DB plan if it is not in his best interests to do so. An employee participating in the ORP DC plan will switch if he perceives he will receive greater benefits by doing so. It is likely that many participants in the ORP DC plan will switch to the TRSL DB plan if given the choice under SB 17.

Retirement Systems

Employer normal costs will not change for FYE 2017 if SB 17 is enacted.

1. The employer normal cost rate for FYE 2017 for TRSL's higher education DB sub plan is scheduled to be 3.2272%.

2. Under current law, members of the ORP DC plan will continue to participate in the ORP DC plan and employers of ORP members will pay 3.2272% of pay into each member's ORP account.

3. Under SB 17, employers of ORP members electing to switch plans on February 1, 2017 will continue to contribute 3.2272% of pay, but the contribution will be paid to the higher education DB sub plan instead of the ORP DC plan.

4. Employer contributions in dollars to the higher education DB sub plan for the period from February 1, 2017 to June 30, 2017 will increase because the number of members and their payroll increase.

5. The employer normal cost in dollars will increase because there will be more participants in the DB plan.

6. In summary, employer contribution requirements will not change. Employer contributions that would have gone to the ORP DC plan under current law will be directed to the higher education DB sub plan on February 1, 2017 under SB 17.

The effect of SB 17 on employer contribution requirements for FYE 2018 is summarized below.

1. The number of higher education employees participating in the higher education DB sub plan will increase as a result of SB 17.

2. The TRSL DB plan uses the Entry Age Normal Cost funding method. Under this method, the older a person is when he enters the plan, the more costly it is to provide the promised benefit.

3. Members of the ORP DC plan who elect to switch to the higher education DB sub plan will be older on average when joining the DB plan than higher education employees who joined the DB plan when first employed.

4. Even if there are no actuarial gains or losses during FYE 2016, it is likely that the employer normal cost applicable to FYE 2018 will increase from the 3.2272% applicable to FYE 2017.

5. Higher education employees entering into the higher education DB sub plan will have a larger average age upon entry into the DB plan than the employees already participating in the plan. Therefore, the normal cost for the higher education DB sub plan will increase. For FYE 2017, the rate was 3.2272%. The rate will be larger for FYE 2018. How much larger will depend on the number of ORP members who elect to switch to the higher education DB sub plan and their average age upon entry.

6. In summary, the employer normal cost rate for the higher education DB sub plan will increase. The larger rate will apply to all members of the higher education DB sub plan, not just to those who switch. The larger rate will also apply to higher education employees who remain in the ORP DC plan. Therefore employer contribution requirements for FYE 2018 will increase.

The effect of SB 17 on employer contribution requirements for FYE 2019 and later years is summarized below.

1. Under current law, the employer contribution rate for the ORP DC plan will be equal to the employer normal cost rate applicable to the higher education DB sub plan or 6.2%, whichever is greater. SB 17 does not change this provision of current law.

2. Nevertheless, SB 17 could have an effect on employer contribution requirements for FYE 2019 and later years. The following example will explain why.

    a. Suppose under SB 17, the employer normal cost rate for the higher education DB sub plan is calculated to be 5.5%. Further suppose that the employer normal cost rate for the higher education DB plan would have been 5.2% under current law.

    b. The employer contribution to the ORP DC plan will be 6.2% of pay regardless of whether or not SB 17 is enacted.

    c. However, the employer normal cost rate applicable to the higher education DB sub plan increases from 5.2% of pay under current law to 5.5% under SB 17. In addition, the payroll applicable to the higher education DB sub plan will be larger under SB 17 than under current law. Therefore, the dollar employer contribution to the higher education DB sub plan will increase.

    Note: the employer contribution percentages shown in the example were selected for illustration purposes only. Actual percentages may or may not be similar to those used in the example.

Other Post-Employment Benefits

There are no actuarial costs associated with SB 17 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 17 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from the General Fund and from Local Funds will increase for FYE 2018 and later years because increases in employer normal costs for the higher education DB sub plan will be greater than employer contribution decreases for the ORP DC plan.

2. Expenditures from the higher education DB sub plan (Agy Self-Generated) will increase only to the extent that members who switch from the ORP DC plan to the DB plan withdraw from service and request and receive a refund of their DB plan contributions.

Revenues:

- TRSL revenues (Agy Self-Generated) will increase because employer contributions will increase.

<u>Actuarial Data, Methods and Assumptions</u>

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.

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Actuarial Caveat

There is nothing in SB 17 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	House
[x] 13.5.1: Annual Fiscal Cost ≥ \$100,000	[x] 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
[ ] 13.5.2: Annual Tax or Fee Change ≥ \$500,000	[ ] 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000
	[ ] 6.8(G): Annual Tax or Fee Change ≥ \$500,000