2013 REGULAR SESSION
ACTUARIAL NOTE SB 17

Senate Bill 17 SLS 13RS-15 **Original** **Author: Senator Elbert L. Guillory** **Date: April 2, 2013** **LLA Note SB 17.01** **Organizations Affected:** **State Retirement Systems** **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, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> Retirement Systems. Provides relative to funding of state retirement systems. (6/30/13)

<u>Cost Summary:</u>

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/(Savings) to Retirement Systems and OGB	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	$0

<u>Estimated Actuarial Impact:</u>

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	Increase
Other Post Retirement Benefits	$0
Total	Increase

<u>Estimated Fiscal Impact:</u>

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	$ 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

REVENUES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**5 Year Total**
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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Bill Information:

Current Law

Current law does not provide for a State Retirement Fund within the state treasury.

Proposed Law

SB 17 creates the State Retirement Fund within the state treasury. It provides that 2% of revenue collections from each tax, assessment, and fee in excess of each tax, assessment and fee collected in FYE 2012 will be allocated to the Fund.

These funds shall be appropriated to each of the state retirement systems in the following manner:

* 37.0% to Louisiana State Employees' Retirement System (LASERS)
* 56.7% to Teachers' Retirement System of Louisiana (TRSL)
* 4.5% to Louisiana School Employees' Retirement System (LSERS)
* 1.8% to Louisiana State Police Retirement System (STPOL)

Each retirement system must apply 80% of the appropriated funds to the unfunded accrued liability of the system. The unfunded accrued liabilities shall be liquidated as follows:

1. To the original amortization base, if any, without re-amortization of the base, until the base is fully liquidated.

2. To the experience account amortization base, if any, without re-amortization of the base, until the base is fully liquidated.

3. To the oldest outstanding amortization base without re-amortization of such base and until all such bases are fully liquidated.

The remaining 20% of the appropriated funds shall be applied by the retirement systems as follows:

1. If the system has an Experience Account used to fund permanent benefit increases, the funds shall be credited to the system's Experience Account.

2. If the system has no Experience Account as a result of the enactment of SB 11 of the 2013 Regular Session of the legislature (i.e., The law is changed to pre-fund permanent benefit increases in another manner), and an unfunded accrued liability and amortization charge base results from the enactment of SB 11, the funds shall be applied to the amortization base so created without re-amortization of the base and until the base is fully liquidated.

3. If the system has no Experience Account as a result of the enactment of SB 11 and no unfunded accrued liability or amortization charge base results from the enactment, all funds shall be applied to the liquidation of the unfunded accrued liabilities of the retirement system.

Note: SB 11 of the 2013 Regular Session provides, among other things, for pre-funding of post-retirement benefit increases for retirees of the four state retirement systems.

Implications of the Proposed Changes

If SB 17 is enacted, excess revenue collections will be dedicated to liquidating the unfunded accrued liabilities and to funding post-retirement benefit increases for retirees of the four state retirement systems.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Total taxes, assessments, and fees were about $10 billion for FYE 2012. This was about 5% larger than the amount collected the prior year. Funds that would be appropriated to the State Retirement Fund and to the retirement systems, assuming that revenues increase 5% a year, or $500,000,000 a year, are shown below.

Allocations to State Retirement Systems for Permanent Benefit Increases*

FYE	LASERS	TRSL	LSERS	STPOL	Total
2014	$ 740,000	$ 1,134,000	$ 90,000	$ 36,000	$ 2,000,000
2015	1,480,000	2,268,000	180,000	72,000	4,000,000
2016	2,220,000	3,402,000	270,000	108,000	6,000,000
2017	2,960,000	4,536,000	360,000	144,000	8,000,000
2018	3,700,000	5,670,000	450,000	180,000	10,000,000

* Assuming SB 11 is not enacted.

Allocations to State Retirement Systems for Additional UAL Payments

FYE	LASERS	TRSL	LSERS	STPOL	Total
2014	$ 2,960,000	$ 4,536,000	$ 360,000	$ 144,000	$ 8,000,000
2015	5,920,000	9,072,000	720,000	288,000	16,000,000
2016	8,880,000	13,608,000	1,080,000	432,000	24,000,000
2017	11,840,000	18,144,000	1,440,000	576,000	32,000,000
2018	14,800,000	22,680,000	1,800,000	720,000	40,000,000

Total Allocations to State Retirement Systems

FYE	LASERS	TRSL	LSERS	STPOL	Total
2014	$ 3,700,000	$ 5,670,000	$ 450,000	$ 180,000	$ 10,000,000
2015	7,400,000	11,340,000	900,000	360,000	20,000,000
2016	11,100,000	17,010,000	1,350,000	540,000	30,000,000
2017	14,800,000	22,680,000	1,800,000	720,000	40,000,000
2018	18,500,000	28,350,000	2,250,000	900,000	50,000,000

The portion of State Retirement Fund monies that will be allocated to provide for permanent benefit increases is a small amount relative to the cost to provide such increases. For example, the cost to provide a 1% benefit increase to retirees is about $50 million for LASERS and about $100 million for TRSL. It will take about 11 years for allocations to LASERS to be enough to give a 1% benefit increase. It will take about 13 years to accumulate enough for TRSL to give a 1% increase.

On the other hand, the accumulation of these amounts when added to gain sharing deposits to the Experience Account under current law may enable the earlier payment of a permanent benefit increase or the payment of a larger amount than otherwise would have been available without SB 17.

As shown in the table below, unfunded accrued liabilities for the state systems will be paid off from 5 to 8 years earlier under SB 17 than they would have been otherwise. The dollar amount contributed in the aggregate for all four systems, even with the inclusion of payments from the State Retirement Fund, will be reduced about $3.069 billion.

	LASERS	TRSL	LSERS	STPOL
Number of future years for which amortization payments are due:				
Current Law	29 years	30 years	29 years	29 years
SB 17	24 years	23 years	21 years	21 years
Decrease	5 years	7 years	8 years	8 years
Dollar amount of amortization payments required until fully funded:				
Current Law	$ 15,748 million	$ 25,856 million	$ 1,882 million	$ 649 million
SB 17	14,607 million	24,064 million	1,788 million	608 million
Decrease	1,141 million	1,792 million	94 million	41 million

The effects of SB 17 on actuarial costs are summarized below:

1. The actuarial present value of benefits of the state retirement systems will increase. SB 17 provides a funding source for permanent benefit increases, and it is reasonable to expect that such benefit increases will be provided when sufficient funds have been accumulated in the Experience Account.

2. The accrued liability of the state retirement systems will increase when a permanent benefit increase using State Retirement Fund monies is granted.

3. The unfunded accrued liability will not increase. Whenever a permanent benefit increase is granted, the actuarial liability associated with the increase will be offset by assets in the Experience Account derived from State Retirement Fund monies.

4. Employer contribution requirements relative to amortization costs will not change until the current unfunded accrued liability is paid off. SB 17 does not change the amortization payment schedule that currently exists until the UAL is liquidated. Employer contribution requirements will be reduced to the employer normal cost rate once the unfunded accrued liability has been paid.

5. Employer contribution requirements will not increase because SB 17 provides a separate funding source for permanent benefit increases.

Note: SB 17 as written could be affected by the Administration's proposal to shift the tax platform from an income tax to a sales tax. SB 17 provides that each type of tax is to be considered separately in the measurement of revenue increases over FYE 2012 amounts. Therefore, if the Administration's proposal is enacted, sales tax revenues would increase by billions, and 2% of that increase, under SB 17, will be diverted to the State Retirement Fund.

Other Post Retirement 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 during the five year fiscal measurement period.

Expenditures:

1. Expenditures from the General Fund will not change because employer contribution requirements will not change during the five year fiscal measurement period.

2. Expenditures by the state retirement systems (Agy Self-Generated) will increase because it is likely that a permanent benefit increase will be granted in the next three to five years and State Retirement Fund monies will be used to provide a portion of such an increase.

3. Expenditures from Local Funds will not change because employer contribution requirements will not change during the five year fiscal measurement period.

Revenues:

1. Revenues to the General Fund will decrease to the extent that monies that would otherwise go into the General Fund will be diverted to the State Retirement Fund and then to the state retirement systems.

2. Revenues to the state retirement systems (Agy Self-Generated) will increase by the amounts deposited into the State Retirement Fund.

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) ≥ \$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