2016 REGULAR SESSION
ACTUARIAL NOTE SB 452

Senate Bill 452 SLS 16RS-1183 **Original** **Author: Senator White** **Date: April 15, 2016** **LLA Note SB 452.01** **Organizations Affected:** **Teachers' Retirement System of Louisiana** **OR DECREASE 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 452 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> TEACHERS RETIREMENT: Allows a participating employer to opt out of the system. (6/30/16)

<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 to Retirement Systems	Decrease
Total Five Year Fiscal Cost	
Expenditures	See Analysis
Revenues	See Analysis

<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 to:</u>	**<u>Change in the Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	See Analysis
Total	Decrease

<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 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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Agy Self Generated	0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Annual Total	$ 0	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

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Bill Information:

Current Law

Under current law, all teachers must become a member of the Teachers' Retirement System of Louisiana (TRSL) as a condition of employment.

Proposed Law

SB 452 will allow a city, parish, or other local school board or any other agency that is an elementary or secondary public school employer to elect prospectively to terminate its participation in TRSL. However, the bill will also require the terminating employer to pay its proportionate share of the system's unfunded accrued liability.

Rules pertaining to such an election to terminate are summarized below.

1. An employer electing to terminate participation must notify the TRSL board of trustees in writing at least 90 days prior to the close of the system's fiscal year.
2. Prospective termination will occur on June 30th following notification and will become effective on July 1.
3. An employee of a terminating employer whose date of first employment with the state occurred before the effective termination date will continue to participate in TRSL. If his date of first employment occurs on or after the effective termination date, he will not participate in TRSL.
4. An institution of postsecondary education or a postsecondary management board may not terminate participation in TRSL.

Rules pertaining to the who must pay the proportionate share are summarized below.

1. If an employing agency who has terminated participation in TRSL hires a person previously employed by another agency whose employees are members of TRSL, then the proportional share of the unfunded accrued liability for the terminated employer shall not change.
2. If a school or entity under an employer's jurisdiction is converted to any other governance model, the prospective employer may terminate its participation in TRSL and pay its proportionate share to the system.
3. If a school or entity under an employer's jurisdiction is transferred to any other entity, and the receiving entity permits the prospective employer to terminate its participation in TRSL, then the receiving entity will pay TRSL its proportionate share on the unfunded accrued liability.

Rules pertaining to the calculation and payment of the proportionate share are summarized below.

1. "Proportionate share" of any unfunded accrued liability means the unfunded accrued liability, attributable to benefits accrued or granted to employees and retirees of the employing agency, established during the period that the employing agency was participating in TRSL.
2. The TRSL actuary will calculate the terminating employer's proportionate share.
3. If the entity responsible for paying the proportionate share disagrees with the amount determined by the TRSL actuary, it may appeal to PRSAC within 30 days of receiving the invoice for such payment.
4. The legislative auditor shall perform an independent determination of the amounts due. If his calculation disagrees with the calculation made by the system's actuary, PRSAC shall meet and render a final decision.
5. The amount due to TRSL will be paid:
    a. As a lump sum,
    b. In equal monthly level installments over ten years with interest at the retirement system's actuarial valuation rate, or
    c. As a percentage of the payroll of active employees of the employer remaining in the system. This payment will be specific to the terminating employer.

Implications of the Proposed Changes

An employer entity will be allowed to terminate its participation in TRSL upon filing an appropriate notice and agreeing to pay its proportionate share of the TRSL unfunded accrued liability.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

SB 452 does not contain any benefit improvements having an actuarial cost.

Retirement Systems

SB 452 will give employers the right to prospectively terminate participation in TRSL. The bill will also require a terminating employer to pay its proportionate share of the system's unfunded accrued liability (UAL) when it takes actions to terminate its participation for some or all of its employees. The provisions of SB 452 that requires payment of the proportionate share will prevent an employer from terminating its participation and transferring its share of the UAL to all other employers that continue to participate.

SB 452 will have the following effect on actuarial and fiscal costs.

1. SB 452 pertains only to K-12 employers. Therefore the bill will only have a minimal effect on higher education employers.

2. The present value of future benefits will decrease because employees of a terminating K-12 employer will not earn any future benefit accruals.

3. TRSL's accrued liability relative to the K-12 segment of its membership will decline over time because accrued benefits will decrease as terminating employers leave the system and employees of the terminating employers cease accruing benefits.

4. TRSL's unfunded accrued liabilities will decrease because the UAL associated with terminating employers will immediately become fully funded either by the terminating employer paying cash or giving a promissory note to the system for its proportionate share of the UAL.

5. TRSL's revenue relative to a terminating employer will increase immediately because such an employer will be required to pay its proportionate share on the UAL. However, employer and employee contribution requirements will decrease because fewer employees will be accruing benefits. Therefore, TRSL's revenues after the first year will decrease.

6. TRSL's revenues will decrease because employer contribution requirements in dollars will decrease as employers terminate participating and the UAL for those employers is paid.

Other Post-Employment Benefits

Actuarial costs associated with HB 452 relative to post-employment benefits other than pension may increase or decrease to the extent that participation in such programs is contingent upon retirement from TRSL.

Analysis of Fiscal Costs

SB 452 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund may increase or decrease. No matter how carefully proportionate shares are measured, some cost shifting will occur and that cost shifting may favor the terminating employer or may favor employers who remain participants. Only K-12 employers may terminate participation in TRSL. No higher education employer may terminate. In a perfect world the General Fund would not be affected by SB 452 because it is the source of funding for higher education. However, because some cost shifting is inevitable, expenditures from the General Fund may increase or decrease.

2. Expenditures from TRSL (Agy Self-Generated) will decrease because fewer employees will earn benefit accruals. As a result, benefit payments will decrease.

3. Expenditures from Local Funds will initially increase when an employer terminates from TRSL. A terminating K-12 employer will be required to immediately fund its proportionate share of the system's UAL. Thereafter, expenditures from Local Funds will decrease because employees of the terminating employer will not be earning any benefits; the terminating employer will not be contributing to the system; and employees of the terminating employer will not be contributing to the system.

Revenues:

- TRSL revenues (Agy Self-Generated) will initially increase because a terminating employer must fund its proportionate share of system's UAL. However, thereafter, TRSL's revenues will decrease because it will not be receiving employer or employee contributions relative to the terminating employer.

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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 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.

Actuarial Caveat

There is nothing in SB 452 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**
☐ 13.5.1: Annual Fiscal Cost ≥ \$100,000	☐ 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