2015 REGULAR SESSION
ACTUARIAL NOTE HB 11

House Bill 11 HLS 15RS-367
Original

Author: Representative Edward J. Price
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LLA Note HB 11.01

Organizations Affected:
Louisiana School Employees' Retirement System

OR NO IMPACT APV

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 11 provides compliance with the requirements of R.S. 24:521

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__Bill Header:__ Provides exceptions, in certain circumstances, to required employer payment of Louisiana School Employees' Retirement System unfunded accrued liability

__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	$0
Total Five Year Fiscal Cost	
Expenditures	See Fiscal Analysis
Revenues	See Fiscal Analysis

__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	$0
Other Post Retirement Benefits	$0
Total	$0

__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	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2018-2020**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
Annual Total	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2018-2020**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	See Analysis	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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis

Bill Information:

Current Law

When an employer participating in Louisiana School Employees' Retirement System (LSERS), terminates a group of employees by eliminating positions held for these employees through privatizing, outsourcing, contracting with a private employer, or any other means, then under current law, the employer is required to pay to LSERS the portion of the unfunded accrued liability (UAL) on account of the group of employees terminated. The UAL attributed to such employees or positions must be paid by the employer with level annual installments over 10 years based on the valuation interest rate.

When an employer participating in LSERS, eliminates positions by privatizing, outsourcing, contracting with a private employer, or any other means, then under current law, the employer is required to pay to LSERS the portion of the unfunded accrued liability (UAL) on account of the position eliminated. The UAL attributed to such positions may be paid by the employer with a lump sum or with level annual installments over 10 years based on the valuation interest rate.

Proposed Law

HB 11 provides that if an employee terminates employment or a position is eliminated as a result of attrition or a force reduction, then the rules under current law requiring the employer to pay the unfunded accrued liability relative to these employees or positions as a lump sum or in ten equal annual installments shall not apply. Furthermore, if an employee's position is eliminated, but he is retained by the employer in another position covers by LSERS, then the employer will not be required to calculate the UAL for such an employee or position. Neither will the employer be required to make installment payments or a lump sum payment relative to this employee or position.

Implications of the Proposed Changes

HB 11 removes circumstances under which an employer must calculate an unfunded accrued liability and eliminates the requirement to pay to LSERS the UAL that would have otherwise been calculated.

Cost Analysis:

Analysis of Actuarial Costs

HB 11 does not contain any benefit provisions having an actuarial cost.

Retirement Systems

HB 11 only applies to employers of employees or positions that are eliminated as a result of attrition or force reduction. Under current law, payment of the UAL associated with such employers and positions would have been made earlier than the regular amortization period would have otherwise been required.

Under HB 11, earlier payment of such UAL has been rescinded. Payments attributable to attrition or reduction in force have been postponed to the time originally provided for under the law.

Under current law, the following occurs when an employer terminates an employee or eliminates a position due to attrition or a reduction in force.

Employer Makes Lump Sum Payment

The following occurs if the affected employer makes a lump sum payment.

1. The UAL for LSERS will decrease.

2. Contribution requirements toward amortization of the UAL will decrease for all employers.

Employer Makes Installment Payments

1. The UAL for LSERS will decrease over a 10 year period as the affected employer makes installment payments.

2. Contribution requirements toward amortization of the UAL will be larger for the next ten years for the affected employer.

3. Contribution requirements toward amortization of the UAL will be smaller for the next ten years for all other employers.

4. Contribution requirements toward amortization of the UAL for all employers, in the aggregate, will be larger for the next 10 years.

The opposite conclusions apply to HB 11 because current law is being reversed. When an increase is indicated above, HB 11 will have the opposite effect, or a decrease. When a decrease is shown above, an increase will apply should HB 11 be enacted.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 11 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

Increases and/or decreases in fiscal costs relative to HB 11 depend on when attrition or a reduction in force occurs and how large such attrition or force reductions are. The only statements that can be made about costs are summarized below.

HB 11 will have the following changes in fiscal costs during the five-year measurement period:

Expenditures:

1. Expenditures from Local Funds attributable to lump sum payments or installment payments will decrease in the year that attrition or a reduction in force occurs. Under current law such payments would be required. Under HB 11, such payments will not be required.

2. Expenditures from Local Funds for years subsequent to the year attrition or a reduction in force occurs will decrease. Under current law, the sum of all amortization payments, in the aggregate, would increase. Under HB 11, such an increase will not be required.

Revenues:

1. Revenues to LSERS (Agy Self-Generated) attributable to lump sum payments or installment payments will decrease in the year that attrition or a reduction in force occurs. Under current law such payments would be required. Under HB 11, such payments will not be required.

2. Revenues to LSERS (Agy Self Generated) for years subsequent to the year attrition or a reduction in force occurs will decrease. Under current law, the sum of all amortization payments, in the aggregate, would increase. Under HB 11, such a decrease will not be required.

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.

Actuarial Caveat

There is nothing in HB 11 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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