TREASURER OF THE STATE OF LOUISIANA

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Wednesday, March 9, 2011

The Honorable Jim Tucker
Speaker of the House of
Representatives P.O. Box 94062
Baton Rouge, LA 70804

The Honorable Joel
Chaisson President
of the Senate
P.O. Box 94183
Baton Rouge, LA 70804

Gentlemen:

As designee and on behalf of the State Treasurer, Chairman of the Funding Review Panel created by Act No. 448 of the 2005 regular legislative session, and in compliance with R. S. 11:108(F)(2), I report as follows:

The Panel met on August 20, 2010, September 17, 2010, October 13, 2010, December 10, 2010, January 21, 2011, and February 24, 2011. The Panel was charged with meeting monthly and submitting recommendations to the legislature for increasing the actuarial soundness of the three municipal retirement systems and providing an affordable benefit for members of each.

As required by law, the Panel heard extensive testimony regarding the benefit structure of each system and about funding challenges the systems are facing. At our February 24th meeting, the Panel adopted the following recommendations:

Recommendation No. 1 /
The Funding Review Panel recommends to the legislature that the Commissioner of Administration and the Treasurer, as well as two mayors selected as provided by the legislature, be added to the board of trustees for the Municipal Police Employees' Retirement System.

Recommendation No. 2
The Funding Review Panel hereby recommends to the legislature that the boards of trustees of the Municipal Police Employees' Retirement System and the Firefighters' Retirement System be granted the authority and discretion to maintain employer contributions at the existing level in any year in which the net actuarially-required contribution would otherwise function to reduce the rate, with the additional funds to be applied to reduce the system's unfunded accrued liability. The Panel further recommends that the boards be allowed to exercise this authority only up to a rate of 15%.

Recommendation No. 3
The Funding Review Panel hereby recommends to the legislature that, for employees whose earned compensation is above the poverty level as determined by the United States Department of Labor, the fixed employee contribution rate specified in R.S. 11:62 or in other provisions of law be replaced with a range of permissible employee contribution rates, as follows:

(1) The Firefighters' Retirement System fixed employee contribution rate of 8.0% of pay shall be replaced with a range between 8.0% and 10.0%.

(2) The Municipal Police Employees' Retirement System fixed employee contribution rate of 7.5% of pay shall be replaced with a range between 7.5% and 10.0%.

The employee contribution rates shall fluctuate in one-quarter increments in conjunction with changes in the actuarially-required employer contribution rate as provided by the police system actuary, Mr. Charles Hall, in his letter of February 23, 2011 (letter attached).

Recommendation No. 4
The Funding Review Panel hereby recommends to the legislature that the Funding Review Panel continue. The Panel further recommends that the Proposals on which the Panel has not acted be subject to further consideration by the Panel at some future date (agenda with proposals attached).

Recommendation No. 5
The Funding Review Panel hereby recommends to the legislature that all active members of the three municipal retirement systems be subject to a 15% anti-spiking provision beginning July 1, 2011.

Sincerely yours,

James H. Napper

James H. Napper, II
Executive Counsel

JHN/lgs

cc: Representative J. Kevin Pearson
Chairman, House Committee on Retirement

Senator D.A. "Butch" Gautreaux
Chairman, Senate Committee on Retirement

Members of the Funding Review Panel

Attachments:
Charles Hall letter of February 23, 2011
February 24, 2011, Funding Review Panel Agenda with Proposals Staff
Summary of Concepts for Consideration

Hall Actuarial Associates

Charles G. Hall
F.C.A., M.A.A.A., A.S.A.
Enrolled Actuary

1624 LaSalle Parc
Baton Rouge, La. 70806
(225) 928-7866

February 23, 2011

Board of Trustees
Municipal Police Employees' Retirement System
7722 Office Park Boulevard, Suite 200
Baton Rouge, Louisiana 70809-7601

RE: Funding Review Panel Request

Gentlemen:

During the January 21, 2011 Funding Review Panel meeting, the panel requested that the Board authorized their actuary to provide the actuarial analysis for various proposals. The analysis illustrates the change in funding requirements associated with various proposed changes to the plan. The analysis for proposals under consideration should not be construed as an endorsement or a recommendation. All calculations are based on June 30, 2010 census data.

PROPOSAL NO. 1 - Increase the insurance premium assessment (Originated as Concept I(A)(2).)

The proposal calls for an increase in the assessment on insurance premiums sold in the state contained in R.S. 22:1476 to be increased from 1% to 1.2%, with the portion of the assessment proceeds allocated to retirement systems to be increased from seven-tenths of one percent to nine-tenths of one percent. This action would have increased MPERS' allocation another $5.14M, reducing the projected employer rate from 28.0% to 26.0%

PROPOSAL NO. 2 - Allow dedicated funds above one year's allocation to remain available for future funding of the retirement systems (Originated as Concept I(A)(3).)

The proposal calls for a special fund be created in the Treasury into which all residual monies remaining in a single year after payment to the retirement systems shall be deposited, with the monies to be available for use in any future year to defray the actuarially-required employer contributions exceeding the statutory minimum. This proposal has little immediate value since all of the total allocation is currently utilized.

PROPOSAL NO. 3 - Increase employee contributions (Originated as Concept I(A)(4).)

(A) <u>Fixed rate increase. (Originated as Concept I(A)(4)(a).)</u>
The proposal would statutorily set the employee contribution rate. For each 1.0% increase in the employee rate, the employer rate would decrease approximately .93%. Future modifications in the employee rate would presumably require legislation.

(B) <u>Fixed rate increase with triggered reductions. (Originated as Concept I(A)(4)(a).)</u>
The proposal would statutorily set the employee contribution rate similar to (A). However, the statute would contain (currently unspecified) language that would trigger a reduction in the employee rate predicated on some level of reduction in the employer rate.

March 2, 2011

Funding Review Panel Request (continued)

(C) Cost-sharing. (Panel to select one of the following (1)-(3).) (Originated as Concepts I(A)(4)(c)-(e).) The proposal would statutorily set the employee contribution rate to float within a minimum and maximum corridor depending on fluctuations in the employer contribution rate.

Consider the following example: At inception, MPERS maintained for many years, an employee rate of 7.0% and a Normal Cost rate of approximately 20% with no UAL. If this ratio of ee's to er's was maintained with a 3% upper corridor limit on the employee rate, then the following chart illustrates how the employee rate could increase/(decreases) as the employer rate increases/(decreases).

Employee Rate	Employer Rate	Employee Rate	Employer Rate
7.50	13.50	9.00	17.00
7.50	13.75	9.25	17.00
7.50	14.00	9.25	17.25
7.50	14.25	9.50	17.25
7.75	14.25	9.50	17.50
7.75	14.50	9.50	17.75
8.00	14.50	9.75	17.75
8.00	14.75	9.75	18.00
8.00	15.00	9.75	18.25
8.25	15.00	10.00	18.25
8.25	15.25	10.00	18.50
8.25	15.50	10.25	18.50
8.50	15.50	10.25	18.75
8.50	15.75	10.25	19.00
8.50	16.00	10.25	19.25
8.75	16.00	10.50	19.25
8.75	16.25	10.50	19.50
8.75	16.50	10.50	19.75
9.00	16.50	10.50	20.00
9.00	16.75	10.50	20.25

If this schedule was currently in effect, the employee rate would be 10.50% and the projected employer would be 25.0% instead of 28.0%.). Note that current statute's requires the employer rate to be rounded to the nearest quarter of 1%, therefore there will be times, due to rounding, that the employee rate will increase before the employer rate, to preserve the ratio.

PROPOSAL NO. 4 - Increase the actuarially-assumed rate of return for fire and police (Originated as Concept I(A)(8).)

The proposal calls for an increase in the actuarially assumed rate of return (i.e., the valuation interest rate) of the two systems from 7.5% to 8.0%. The actuarial impact of this proposal to MPERS can be found on the attached Schedule B under the column labeled "8% Discount Rate".

PROPOSAL NO. 5 - Relieve employers from contributing on supplemental pay (Originated as Concept I(A)(9).)

(A) Supplemental pay be excluded from earned compensation and benefit calculation.

Excluding supplemental pay from earned compensation and benefit calculation has certain legal considerations not considered here relative to vested rights to accrued benefits which included supplemental pay as part of the final average compensation calculation. It is anticipated that the employer rate as a % of payroll would increase 2.75% although the actual dollars funded would decrease $3.57M. The contribution rate increases primarily due to fixed amortization cost which would now be funded over a reduced aggregate payroll.

(B) The responsibility for paying the employer contributions attributable to supplemental pay should be shifted to the State or the employee.

If the funding requirements relative to supplemental pay were shifted to the State or the employees, the employer rate would be expected to decrease as a % of payroll 3.5% (from the projected 28.0%), to 24.5%. Similarly, the 3.5% savings to the employers would be shifted to the employees and/or the State or some combination of the two.

PROPOSAL NO. 6 - Prevent inter-employer cost-shifting for large pay raises (Originated as Concept I(A)(11).)

The proposal specifies that if a salary increase would cause the employer contribution rate to increase by 0.25 percentage points or more, then that municipality shall be subject to a separate actuarial assessment performed as part of the system's annual valuation; the municipality shall make annual amortization payments for this individualized assessment in addition to the contribution rate applicable to all employers until the cost of such increase is completely amortized. This proposal has little immediate effect on the employer contribution rate and only addresses a prospective equity issue.

PROPOSAL NO. 7 - Provide for employers to withdraw from fire and police systems (Originated as Concept I(A)(12)(b).)

The proposal calls for rules governing a municipality's withdrawal liability similar to the following.

A. *Notwithstanding any other provision of law, if an employer is authorized by law to terminate its participation in the system and terminates said participation, the employer shall remit to the system its proportionate share of unfunded actuarial accrued liability, if any, as it exists on the date of the employer's termination of such participation.*
B. *The amount required to be remitted pursuant to this Paragraph shall be determined as of the June thirtieth immediately prior to the date of termination of the employer, as applicable. The amount due shall be determined by the actuary employed by the system and shall either be paid in a lump sum or amortized over ten years in equal monthly payments with interest at the system's actuarial valuation rate in the same manner as regular payroll payments to the system, at the option of the employer.*

March 2, 2011

Funding Review Panel Request (continued)

PROPOSAL NO. 8 - Reduce future benefit accruals (Originated as Concepts I(B)(1)-(6).)

The proposal calls for the reduction in future benefit accruals. The actuarial impact of this proposal to MPERS can be found on the attached Schedule A under the columns labeled “accrual-2.5%”, “accrual-2.75%”, “accrual-3.0%”, if applied to current actives prospectively.

Similarly, the actuarial impact of this proposal to MPERS can be found on the attached Schedule B under the columns labeled “2.5% Accrual Rate”, “2.75% Accrual Rate”, “3.0% Accrual Rate”, if applied to current actives retroactively.

PROPOSAL NO. 9 - Reduce compensation used to calculate benefit payments (Originated as Concept I(B)(7).)

The proposal calls for the following changes;
(A) The three municipal retirement systems be subject to a fifteen percent anti-spiking provision applicable
(B) Excluded supplemental pay from earned compensation.
(C) Excluded pay increases mandated pursuant by R.S. 33:1992(B) from earned compensation.
(D) Capp annual earned compensation at $106,800, indexed to social security requirements.

Items (A) and (C) of this proposal have little immediate effect on the employer contribution rate and only addresses benefit limitations that are not currently part of the valuation pricing.

Item (B) is similar to Proposal No. 5

Implementing (D) would currently reduce the total Normal Cost .05% of payroll.

PROPOSAL NO. 10 - Add board members for police and municipal employees (Originated as Concept II(C).)

The proposal recommends that two mayors, selected as provided by the legislature, be added to the board of trustees for the Municipal Police Employees' Retirement System. No actuarial impact.

PROPOSAL NO. 11 - Allow fire and police to maintain employer contribution rates (Originated as Concept II(F).)

The proposal recommends that the Municipal Police Employees' Retirement System be granted the authority and discretion to maintain employer contributions at the existing level in any year in which the net actuarially-required contribution would otherwise function to reduce the rate, with the additional funds to be applied to reduce the system's unfunded accrued liability. No actuarial impact.

March 2, 2011

Funding Review Panel Request (continued)

PROPOSAL NO. 12 - Review methods for valuation of system assets (Originated as Concept II(G).)

The proposal recommends that the Municipal Police Employees' Retirement System and the Public Retirement Systems Actuarial Committee examine the appropriateness of "mark-to-market" as it applied to the valuation of system investments. A proposed study has no immediate actuarial impact.

Remember, when viewing the attached Schedules A and B, the annual actuarial funding is comprised of two parts, the cost to fund the current annual accrual (referred to as the Normal Cost), and a payment to amortize the actuarial unfunded liability (the difference between the actuarial value of benefits and assets). Changes in Normal costs are prospective and can apply to current actives and/or new hires. Changes to the actuarial unfunded liability apply to benefit changes for current active members that have a retroactive or prospective application.

If you have any questions or care to discuss this matter further, please do not hesitate to contact me.

Sincerely,

Charles G. Hall, FCA, MAAA, ASA
Actuary

Schedule "A"

Municipal Police Retirement System
7/1/2010

Salary	Current	Ret Elig	Ret Elig	Ret Elig	Accrual - 2.5%	Accrual - 2.75%	Accrual - 3.0%
280,977,278	Plan	12-55 & 20-50	25-55 & 10-60	10@60	Prospectively	Prospectively	Prospectively
Accrued Liability							
Actives	878,994,536	841,792,694	642,465,432	461,130,686	824,083,440	841,139,029	857,644,781
DROP/active	16,280,514	16,280,514	16,280,514	16,280,514	15,115,090	15,464,717	15,814,344
DROP reserve	177,683,062	177,683,062	177,683,062	177,683,062	177,683,062	177,683,062	177,683,062
Retirees	923,125,896	931,658,230	931,658,230	931,658,230	931,658,230	931,658,230	931,658,230
Total	1,996,084,008	1,967,414,500	1,768,087,238	1,586,752,492	1,948,539,822	1,965,945,038	1,982,800,417
change in AL		-28,669,508	-227,996,770	-409,331,516	-47,544,186	-30,138,970	-13,283,591
amortized % pay		-0.83%	-6.63%	-11.90%	-1.38%	-0.88%	-0.39%
		{ applies retroactively for current actives, but not new hires }					
Normal Cost							
Actives	43,711,241	42,732,021	34,793,410	28,781,390	38,818,432	40,299,655	41,754,500
DROP/active	2,873,541	2,873,541	2,873,541	2,873,541	2,658,557	2,723,052	2,787,547
Total	46,584,782	45,605,562	37,666,951	31,654,931	41,476,989	43,022,707	44,542,047
% pay	16.58%	16.23%	13.41%	11.27%	14.76%	15.31%	15.85%
		{ applies retroactively for current actives & for new hires }					
change in NC		-979,220	-8,917,831	-14,929,851	-5,107,793	-3,562,075	-2,042,735
% pay		-0.35%	-3.17%	-5.31%	-1.82%	-1.27%	-0.73%

Schedule "B"

Municipal Police Retirement System 7/1/2010

Salary 280,977,278	Current Plan	"2.5%" Accrual Rate	"2.75%" Accrual Rate	"3.0%" Accrual Rate	5 year FAC	8.0% Discount Rate
Accrued Liability						
Actives	878,994,536	674,117,085	739,454,564	802,778,719	837,763,250	819,979,981
DROP/active	16,280,514	12,210,385	13,431,424	14,652,462	15,568,356	15,557,278
DROP reserve	177,683,062	177,683,062	177,683,062	177,683,062	177,683,062	170,097,271
Retirees	923,125,896	931,658,230	931,658,230	931,658,230	931,658,230	888,172,670
Total	1,996,084,008	1,795,668,762	1,862,227,280	1,926,772,473	1,962,672,898	1,893,807,200
change in AL		-200,415,246	-133,856,728	-69,311,535	-33,411,110	-102,276,808
amtz % pay		-5.82%	-3.89%	-2.01%	-0.97%	-2.97%
		{-------- applies retroactively for current actives, but not new hires --------}				
Normal Cost						
Actives	43,711,241	34,700,070	37,479,301	40,220,137	41,899,856	39,318,218
DROP/active	2,873,541	2,155,155	2,370,671	2,586,186	2,791,568	2,720,258
Total	46,584,782	36,855,225	39,849,972	42,806,323	44,691,424	42,038,476
% pay	16.58%	13.12%	14.18%	15.23%	15.91%	14.96%
		{-------- applies retroactively for current actives & for new hires --------}				
change in NC		-9,729,557	-6,734,810	-3,778,459	-1,893,358	-4,546,306
% pay		-3.46%	-2.40%	-1.34%	-0.67%	-1.62%

.5% Increments	
Employee Rate	Employer Rates
7.50	13.50
8.00	14.50
8.50	15.50
9.00	16.50
9.50	17.50
10.00	18.50
10.50	19.50
10.50	20.50

For decreases below 19.5% for the employer, the empolyee rate would decease .5% for each decrease in the employer rate that exceeds 1%

.25% Increments	
Employee Rate	Employer Rates
7.50	13.50
7.75	14.00
8.00	14.50
8.25	15.00
8.50	15.50
8.75	16.00
9.00	16.50
9.25	17.00
9.50	17.50
9.75	18.00
10.00	18.50
10.25	19.00
10.50	19.50
10.50	20.00
10.50	20.50

For decreases below 19.5% for the employer, the empolyee rate would decease .25% for each decrease in the employer rate that exceeds .5%

The above assumes a 3% cap on the employee rate

TREASURER OF THE STATE OF LOUISIANA

John Neely Kennedy
State Treasurer

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Wednesday, February 16, 2011

R E V I S E D

MEETING NOTICE
of the
FUNDING REVIEW PANEL
Established by Act No. 448 of the 2005 Regular Session
Revised by Act No. 93 of the 2010 Regular Session

TO:	**Members of the Funding Review Panel**
FROM:	**John Neely Kennedy, State Treasurer, Chairman of the Panel**
DATE:	**Thursday, February 24, 2011**
TIME:	**9:00 a.m.**
PLACE:	**House Committee Room 6, State Capitol, Baton Rouge, LA**

AGENDA

I. Call to order & roll call

II. Approval of minutes of December, 2010 and January, 2011 meetings

III. Presentations and discussion regarding providing increased actuarial soundness and an affordable benefit for the Firefighters' Retirement System, the Municipal Employees' Retirement System, and the Municipal Police Employees' Retirement System

A. Presentation and consideration of proposed Findings to be included in the Report to the Legislature

B. Consideration of Proposals 1 through 12 for inclusion in the Report to the Legislature.

PROPOSAL NO. 1
Increase the insurance premium assessment on insurance premiums sold in the state contained in R.S. 22:1476 from 1% to 1.2% with the additional 0.2% of proceeds to be dedicated to the four public retirement systems as currently provided in that statute.

PROPOSAL NO. 2

Allow dedicated funds from the proceeds of the assessment in R.S. 22:1476 in excess of one year's allocation to remain available for future funding of the retirement systems named in the statute.

<u>PROPOSAL NO. 3</u>
Increase the employee contribution rates fixed by law.

(A) Provide a permanent fixed employee contribution rate that is greater than the current rate.

(B) Provide a fixed employee contribution rate that is greater than the current rate, together with a schedule of automatic reductions triggered by decreases in the actuarially-required employer contribution rate.

(C) Replace the fixed employee contribution rate with a scheme in which the employee and employer share specified plan costs with the employee paying a fixed percentage of such costs and the employer funding the remainder.

(1) Provide for employees to share in a fixed percentage of normal cost only.

(2) Provide for employees to share in a fixed percentage of normal cost and payments for the unfunded accrued liability created after some future date.

(3) Provide for employees to share in a fixed percentage of normal cost and payments for all unfunded accrued liability, created in the past as well as the future.

<u>PROPOSAL NO. 4</u>
Increase the actuarially-assumed rate of return for fire and police from 7.5% to 8.0%.

<u>PROPOSAL NO. 5</u>
Relieve employers from contributing on supplemental pay.

(A) Exclude supplemental pay from earned compensation and benefit calculation.

(B) Shift responsibility for funding the employer contributions attributable to supplemental pay to the employees or to the state.

<u>PROPOSAL NO. 6</u>
Prevent inter-employer cost-shifting for large pay raises.

<u>PROPOSAL NO. 7</u>

Provide a reasonable mechanism for employers to withdraw from fire and police systems without leaving legacy costs to be funded by the remaining employer participants or members.

PROPOSAL NO. 8
Reduce future benefit accruals.

PROPOSAL NO. 9
Reduce compensation used to calculate benefit payments.

(A) Subject the three systems to a 15% anti-spiking provision.

(B) Exclude supplemental pay from earned compensation.

(C Exclude pay increases mandated pursuant to R.S. 33:1992(B) from earned compensation.

(D) Cap annual earned compensation at $106,800, indexed to social security requirements.

PROPOSAL NO. 10
Add members to the boards of trustees for police and municipal employees.

PROPOSAL NO. 11
Allow fire and police to maintain the employer contribution rate at the existing level in any year in which the net actuarially-required contribution would otherwise function to reduce the rate, with the additional funds to be applied to reduce the system's unfunded accrued liability.

PROPOSAL NO. 12
Review methods for valuation of system assets.

C. Presentation and consideration of any other matter proposed for inclusion in the Report to the Legislature.

IV. Discussion of future meetings, schedule, and topics for consideration

V. Other business

VI. Adjournment

For further information or questions, please contact Laura Gail Sullivan at (225) 342-1196.

Funding Review Panel
Staff Summary of Concepts for Consideration
January 12, 2011

This document represents a summary of the general concepts that have been suggested for Panel consideration, including some of those mentioned in the 2005 report prepared for the Louisiana Municipal Association by Dr. Jim Richardson and the list of ideas from the August meeting, all of which the Panel indicated deserved a closer look. The information provided has not been reviewed by actuaries or system attorneys, and is intended only as an overview.

Some submissions received by the Chairman or staff of the Panel presented a single, detailed "solution," "thought," or "idea" comprised of multiple concepts. The broad components of those detailed submissions are contained in this document.

The provisions of R.S. 11:108(F)(2) specify that on or before March 15, 2011, the Funding Review Panel shall submit to the House and Senate committees on retirement and to the legislative auditor a report containing its recommendations for increasing the actuarial soundness of each system and for providing an affordable benefit for members of each system.

This summary of concepts suggested for consideration by the Panel classifies each on the basis of whether its implementation would result in providing an affordable benefit or in increasing the actuarial soundness of the system. Concepts which directly or indirectly impact the affordability of benefits provided are further divided into those which make the benefit more affordable for employers and those which enhance the affordability of the benefit for all payors.

During the upcoming meetings, concepts that the Panel chooses to advance will be drafted into specific proposals for actuarial and legal analysis. Bear in mind that most proposals will need to state the date on which they would become effective and which, if any, active employees are included. For example, a proposal increasing the employee contribution rate may specify that employees with fewer than 10 years of service credit will begin paying an additional 1% of earned compensation to the system effective January 1, 2012. Additionally, if the proposal is intended to apply only temporarily, the specific duration or a trigger to end the application should be specified as well.

Please note that the savings from implementation of more than one proposal will not necessarily be equal to the sum of the savings from the individual proposals. Unless otherwise noted, each concept is meant to apply to all three systems. The unofficial projected employer contribution rates calculated in the most recent actuarial valuations will likely not be affected by most of these concepts due to the timing of implementation. These projected rates are:

Firefighters' Retirement System (FRS)	- 25.25%
Municipal Employees' Retirement System Plan A (MERSA)	- 16.75%
Municipal Employees' Retirement System Plan B (MERSB)	- 8.00%
Municipal Police Employees' Retirement System (MPERS)	- 28.00%

For consistency, "normal cost" as used in this document generally refers to the cost attributable to the active employees' service accruals in the current plan year. "Unfunded accrued liability" or UAL means the cost attributable to any other liability-creating event, including market losses or experience that exceeds the plan assumptions.

Technically, the unfunded accrued liability is the amount of assets needed but not currently possessed to pay for benefits accrued in the past. Because accrued benefits cannot be diminished or impaired, meaningful reduction in the UAL is generally achieved only through an increase in plan assets.

Many of the concepts below may be assessed using the dollar value of the impact. Most of the discussion regarding funding for the three municipal retirement systems refers to the employer contribution rate rather than a dollar amount. Based on the June 30, 2010 valuations, the dollar value of 1% of pay is approximately:

Firefighters' Retirement System (FRS)	- $ 1.90 million
Municipal Employees' Retirement System Plan A (MERSA)	- $ 1.63 million
Municipal Employees' Retirement System Plan B (MERSB)	- $ 0.652 million
Municipal Police Employees' Retirement System (MPERS)	- $ 2.81 million

The Panel has previously received testimony and documentation on the current benefits of the three systems, the allocation of cost of the public safety systems, and the new provisions at the state systems for hazardous and nonhazardous duty employees.

I. AFFORDABLE BENEFIT

A. COST-SHIFTING. Generally, staff has categorized a concept as "cost-shifting" if it serves to reduce the payments required of employers without changing the benefit structure. A cost-shifting concept may reduce the obligations of the employers by shifting some portion of the required payments to another payor or by changing the calculation of annual required employer contributions.

1 - <u>Cap the municipalities' contribution rate.</u> From the point of view of the employer, this would be similar to instituting a defined contribution retirement system for the future. The 2005 Richardson report suggested that the municipalities pay not more than 18%.

To the extent that the net employer rate is capped, some adjustment must be made to another aspect of the assets or liabilities. The suggested options are:

(a) Shift the additional contribution required for the year to the state.

(b) Shift the additional contribution required for the year to the employee.

(c) Defer the additional contribution required for the year, with the employers retaining responsibility for the later payment plus interest.

(d) Reduce the accumulation of liabilities to reflect the reduction in asset accumulation. For example, rather than accruing a benefit of 3.33% (or 3%) of final average compensation, the employee would accrue 1.5% (or 1.2%) in any year in which the employer contribution rate cap reduces the amount the system will receive.

2 - <u>Increase the insurance premium assessment</u>. Four public retirement systems for public safety employees, including FRS and MPERS, benefit from statutorily-dedicated proceeds from an assessment on insurance premiums sold in Louisiana. Seven-tenths of the funds generated by the 1% assessment are shared by these systems, and the money is referred to as the "Insurance Premium Tax Fund" or IPTF.

The 2005 Richardson report suggested increasing the assessment from 1% to 1.2% and dedicating the extra proceeds exclusively to the police and fire systems. This represents a 20% increase in an existing tax, requiring a two-thirds vote of the legislature.

Each one-tenth of 1% yielded approximately $7 million for application to the July 1, 2011, contribution requirements. Seven million dollars represents about 3.7% of payroll at FRS and 2.5% of payroll at MPERS.

3 - Dedicate full IPTF to public safety systems. The sole recommendation presented to the legislature in the Panel's 2006 report suggested allowing dedicated insurance premium tax dollars above the amount needed in a single year to remain available for police and fire system needs rather than continuing to revert to the state general fund. This change, if enacted, would be unlikely to affect the net actuarially-required contribution rate for the next several years.

R.S. 11:103(C)(2)(b) provides a floor of 9% on the net contribution rate that employers at FRS and MPERS must pay. Before any money reverts to the general fund, the IPTF dollars must function to reduce the employer's rate to the statutory minimum.

The June 30, 2010 system valuations indicate the employer rate will be 28% for MPERS and 25.25% for FRS. This is net of the IPTF allocations of 5.5% of pay for MPERS and 11.4% of pay for FRS.

The revenues produced by the assessment would have to increase substantially before any money would, under current statutory provisions, revert to the general fund.

4 - Increase required employee contributions. Currently employee contribution rates are fixed by law as follows:

Firefighters' Retirement System (FRS)	- 8.00%
Municipal Employees' Retirement System Plan A (MERSA)	- 9.25%
Municipal Employees' Retirement System Plan B (MERSB)	- 5.00%
Municipal Police Employees' Retirement System (MPERS)	- 7.50%

There are several options suggested for increased contributions from employees:

(a) Specifying a greater fixed rate.

(b) Allowing the employee rate to "float" as the employer rate does, based on returns on the systems' investments and other plan experience, shifting some (or all) of the investment and experience risk to the employees.

(c) Providing for sharing of the normal cost. Under this scenario, the employee and employer share in any increases in the cost of accruals as well as any decrease. Using an entry age normal cost method for all systems, currently MERSA employees fund roughly 60%, MPERS employees 40%, and FRS employees 35% of their respective normal costs.

(d) Provide for sharing of future increases in UAL-type payments. Because MPERS has a 30-year amortization period, this would likely result in employees bearing responsibility for system experience that does not occur within their working lifetimes. MERS' valuation method already amortizes plan experience over the future working lifetimes of the current cohort of employees, making implementation at that system relatively simple.

(e) Provide for sharing of current and future UAL-type payments.

5 - Reamortize the UAL. Any reduction in the current payments only delays the funding of the system. The interest that will accrue on the deferred portion of the debt may be an important consideration in the assessment of whether to advance this concept. Additionally, the constitutional mandate of actuarial soundness may limit the extent to which funding may be deferred.

(a) Extending the amortization period. The 2005 Richardson report suggested reamortizing unfunded accrued liabilities and extending the payment period. MPERS extended its amortization period from 15 years to the GASB-maximum 30 years in the 2002 valuation. In 2009, FRS extended its amortization period of 15 years to the longer of 15 years or until 2029.

(b) Debt consolidation. FRS consolidated the amortization bases that are obligations of the municipalities in 2002 and reamortized the total until 2029. It has been suggested that FRS should repeat this action by consolidating the amortization bases created since 2002, either independent of or including the consolidated base previously created in 2002.

At MPERS, a consolidation of this type may result in an increase in the immediate funding requirements as it will function to delay recognition of credits.

(c) Change the payment schedule from level dollar payments to an increasing payment schedule.

6 - Contribution holiday. Note that this does not relieve any employer's obligation; it merely extends the due date of the obligation into the future subject to interest accrual.

(a) For all employers. Currently, 100% of each year's net projected actuarially-required contributions are billed to the employers. This would involve allowing the employers to pay something less than 100% of the actuarially-required employer contributions for a limited time.

(b) At option of employer. This would involve allowing each employer to make an individualized choice about what amount to pay the retirement system for a limited time, deferring the balance of that employer's obligation. The retirement system would incur administrative costs in setting up the individualized payment plans necessary for implementation of this concept.

7 - Issue bonds.

(a) Issuance by the state. As the IPTF is the only source of funds for repaying such a bond, this would not seem to reduce the payments required from the municipalities. The state's debt ceiling might be a consideration.

(b) Issuance by individual municipalities. This would appear only to provide a source of funds for making the actuarially-required employer contributions. See I(A)(10) below.

8 - Increase the systems' actuarially assumed rate of return (AARR). The 2005 Richardson report suggested this. Since issuance of that report, both MPERS and FRS increased their system AARR from 7.0% to 7.5%. MERS currently has an AARR of 8.0%. Nationally, AARRs in the public pension community are trending lower, not higher. It appears that institutional investors do not expect the investment income from fully-diversified portfolios to reach the 7.5% annualized level for the next decade.

9 - Relieve the employer from making contributions on supplemental pay.

(a) Exclude supplemental pay from benefit calculation. (This is cost-reducing; see discussion below at I(B)(6)(e).)

(b) Require the employee to pay both the employee and employer contribution on the supplemental pay included in benefit calculation.

(c) Require the state to provide the employer contributions on supplemental pay. (Note that the monies already provided by the state through the IPTF allocations appear sufficient to meet the current contribution requirements.)

(d) Require the state to provide employer contributions attributable to any increases in supplemental pay effective on or after January 1, 2012.

10 - Dedicate taxes to the municipal systems.

(a) Divert the growth in proceeds from existing taxes for dedication to the police and fire systems. See Act 83 of the 2002 Regular Session.

(b) Reduce the homestead exemption or otherwise provide for new taxes or increases in existing taxes, allowing the local entities to issue bonds to be funded from the increased revenue.

11 - Provide for individualized funding of certain costs. Require employers to pay on an individual basis for actions which would otherwise have a greater-than-anticipated detrimental effect on all participating employers.

(a) Assess pay increases individually on an annual basis. If an employer's pay increase is substantially large in actuarial impact, an individual actuarial calculation will be made and that employer will fund all (or a portion) of the impact.

(b) Assess use of overtime in a similar manner.

12 - Encourage employers to help themselves.

(a) Urge individual employers to prioritize spending on employee compensation, including suspending employer pick-up of employee contributions and "matching" payments to 457 or other tax-deferred plans and redirecting those funds to cover employer contributions supporting the defined benefit annuities.

(b) Provide a reasonable mechanism for participating employers at FRS and MPERS to withdraw from the system without leaving unpaid existing (UAL) or future (COLA) pension liabilities to be absorbed by the remaining employers.

B. COST-REDUCING. Generally, staff has categorized a concept as "cost-reducing" if it serves to reduce the accumulation of liabilities in the future, regardless of which group is presently funding the accumulation. For the most part, concepts falling into this category reduce future benefit accruals or delay or reduce payment of benefits.

As repeatedly indicated in testimony at Panel meetings, benefit changes that apply only to persons employed in the future will have no appreciable effect on funding requirements of the systems until a sufficient number of active employees accruing benefits under the current structure are replaced by employees under the altered benefit structure.

The Panel was presented with information about the provisions of Act 992, regarding the benefits provided for state employees. The benefit levels are based on whether the person's employment is in a position considered "hazardous duty" or "nonhazardous duty".

1 - Eligibility - years of service. Require additional years of service for benefit eligibility.

The current minimum service requirement is 12 years for FRS and MPERS and 10 years for MERS. Each system has a "25 and out" provision that allows a person to draw an unreduced benefit after 25 years of service regardless of age.

(a) Increase MERS minimum service requirement to 12 years.

(b) Increase the minimum service requirement at each system by two to five years.

(c) Eliminate the "25 and out", to be replaced by "30 and out" with an actuarial reduction.

(d) Eliminate the "25 and out" at MERS.

2 - Eligibility - age. Require a person to have attained a certain age before he may draw a retirement benefit. This would generally eliminate the "25 and out" provision, or subject the annuity payments to actuarial reduction.

(a) Require a member to attain age 60 before drawing an unreduced benefit.

(b) Increase the age requirement by five years for each eligibility category with an age requirement.

3 - Eligibility - standardization. Provide a single set of eligibility standards for all members of the three systems. Currently, FRS and MPERS have substantially similar eligibility provisions, with MERS having a slightly different scheme.

(a) 10 years at age 60, unreduced.
25 years at age 55, actuarially reduced.
30 years at any age, actuarially reduced.

(b) 12 years at age 55, unreduced.
20 years at any age, actuarially reduced.

4 - Eligibility - other limitations. Subject nonhazardous members of FRS and MPERS to MERSA eligibility.

5 - Benefit calculation - accrual rate. Reduce the "multiplier" used to determine the maximum annuity. Currently the accrual rate is 3.33% at FRS and MPERS, 3.0% for MERSA, and 2.0% for MERSB, with certain elected officials receiving additional accruals.

(a) Reduce the accrual rate for each group by one-third of a percent.

(b) Reduce the accrual rate for FRS and MPERS to 3.0% (2.75%); MERSA to 2.75% (2.5%).

(c) Reduce the accrual rate for FRS and MPERS to 3.0%.

(d) Provide for accrual rates at each system based on whether the member is employed in a hazardous (3.0%) or nonhazardous job (2.5%).

(e) Eliminate the additional accrual for elected officials.

(f) Subject nonhazardous members of FRS and MPERS to the MERSA accrual rate.

6 - Benefit calculation - final average compensation (FAC) period.

(a) Extend the FAC period for new employees at MPERS and FRS from three years to five years.

(b) Shift all active employees from a three-year FAC to a five-year FAC.

(c) Provide for an FAC period equal to the years of service credit used to calculate the maximum retirement benefit.

(d) Provide for an FAC period equal to the number of years of service credit necessary to reach 100%.

7 - Benefit calculations - other limitations.
(a) Exclude overtime from inclusion in earnable compensation and therefore FAC. (No contributions would be paid.)
(b) Cap the maximum benefit at something less than 100% of FAC.
(c) Cap the maximum benefit at a dollar amount.
(d) Cap earnable compensation at a dollar amount.
(e) Exclude supplemental pay from earnable compensation/ FAC.
(f) Exclude the statutorily-required pay increases found in R.S. 33:1992(B) from earnable compensation/FAC.
(g) Exclude any pay increases that exceed the actuarial pay raise assumption of the retirement plan from earnable compensation/FAC.
(h) Provide for a 15% antispiking limitation.

8 - Replace the defined benefit (DB) system with social security. This would function to reduce the employers' and employees' contributions to 6.2% of pay.

9 - Replace the DB system with a defined contribution (DC) system. This provides a payout of a limited dollar amount rather than a guaranteed lifetime annuity.

10 - Provide an alternate DB plan with social security participation. Provide for a "Plan B" at MPERS and FRS similar to the MERSB structure, with reduced accruals.

11 - Prefunding of cost-of-living adjustments (COLAs). See II(B) below.

II. ACTUARIAL SOUNDNESS. Included in this category are concepts that are intended to provide for better administration of the systems.

A. Reduce the AARR. By reducing the level of expected investment income generated by the system assets, funding of the benefit occurs "on the front end". Earnings above the AARR become credits which reduce the future contribution requirements, so less is paid "on the back end."

Note that Concept I(A)(8) provides the opposite. An increase in AARR reduces the present funding requirements. Earnings below the AARR form new liability payment schedules, increasing the future contribution requirements.

B. Prefunding of cost-of-living adjustments (COLAs). Currently employers pay the full cost of any post-retirement benefit increases for annuitants, which are granted on an ad hoc basis but are connected to each system's investment returns and funding level. By making future post-retirement benefit increases a part of the benefit plan design, the funding would be expected to occur during the working lifetime of the person who will receive the benefit.

C. Changes to the boards of trustees.
1 - Add the commissioner of administration and the treasurer as ex officio members of the boards of MERS and MPERS.

2 - Add two mayors or other officials with budgetary responsibility to the board of MPERS.

D. Consolidation of investments. By pooling the assets of the three systems, some economies would be expected to materialize. Currently MERS and FRS employ the same investment consultant. MPERS is in the process of hiring a new consultant, and the MERS/FRS consultant is among the applicants for this position.

In the past, the number of systems with different consultants, investment allocations, and particular investments within those allocations provided an additional layer of diversification for Louisiana public retirement systems. The fact that MERS and FRS have the same consultant and are co-investors in several non-public vehicles has significantly reduced the protection previously provided by having completely separate investments.

E. Consolidation of plans. It has been suggested that this will provide greater transparency. The similarity of the benefit structure and the AARR for the public safety systems may indicate that consolidation of these two systems would be a simple exercise. To the extent that provisions of all three plans are standardized, the ease of consolidation is enhanced. A plan consolidation may provide a reduction in outlay for plan administration, a recurring savings.

1 - Close the three separate systems and provide for a single system for new employees.

2 - Merge the three existing systems into a single system.

F. Maintaining contributions rates. Allow the boards of trustees at MPERS and FRS to keep the employer rate up in years when it would otherwise be reduced, with additional funds applied to liquidate the UAL. MERS and other statewide systems have used this provision successfully in the past, reducing the principal of the debt owed and therefore reducing or eliminating funding requirements for future years.

G. Valuation of investments. Consider alternatives to the current practice of valuing the assets of the system using "mark to market". For example, value securities and similar instruments without regard to the "mark to market" rule unless the security is subject to the "other than temporarily impaired" rule. Value bonds and similar instruments subject to amortization of any premium paid in connection with the purchase.