TEACHERS' RETIREMENT SYSTEM OF LOUISIANA
"RULE OF 85" ACTUARIAL IMPACT

ACTUARIAL SERVICES

Informational Report
Issued October 23, 2024

LOUISIANA LEGISLATIVE AUDITOR

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LOUISIANA LEGISLATIVE AUDITOR

October 23, 2024

The Honorable J. Cameron Henry, Jr.
President of the Senate
The Honorable Phillip R. DeVillier
Speaker of the House of Representatives

Dear Senator Henry and Representative DeVillier:

This information report provides the results of an analysis of adding an additional retirement eligibility rule for the Teachers' Retirement System of Louisiana. Specifically, permitting any class of employee to be eligible for normal retirement when the sum of their age and years of service is at least 85 (i.e., the "Rule of 85"). This report is intended to provide timely information related to an area of interest to the legislature based on a legislative request. I hope this report will benefit you in your legislative decision-making process.

I would like to thank TRSL's director, staff, and actuary for the cooperation and assistance provided during this review.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW:kjh

cc: Ms. Katherine Whitney, Director
Teachers' Retirement System of Louisiana

LLA'S RULE OF 85 ACTUARIAL IMPACT ANALYSIS

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Background

Current Retirement Eligibility Rules

The Teachers' Retirement System of Louisiana (TRSL or the System) consists of multiple membership groups. Each membership group is further subdivided by date of first employment making them eligible for membership in one of the state retirement systems. In general, retirement eligibility occurs when a member reaches a specified combination consisting of a minimum age and minimum years of eligibility service. The current eligibility requirements for each membership sub-group are outlined in the table below:

Plan	Hire Date	Accrual Rate	Normal Retirement Eligibility	
			Age	Service
Regular Teachers/ Higher Education	Before 7/1/1999	2.0%	60	5
			N/A	20
		2.5%	55	25
			65	20
			N/A	30
	7/1/1999 – 12/31/2010[1]	2.5%	55	25
			60	5
			N/A	30
	1/1/2011 – 6/30/2015[1]	2.5%	60	5
	After 6/30/2015[1]	2.5%	62	5
Lunch Plan A	All	3.0%	55	25
			60	5
			N/A	30
Lunch Plan B	Before 7/1/2015	2.0%	55	30
			60	5
	After 6/30/2015[1]	2.0%	62	5

[1]Eligible for actuarially-reduced early retirement benefit with 20 years of service at any age

Rule of 85 Eligibility Rules

In general, a "rule of X" retirement provision permits a member to retire when the sum of their age plus their years of eligibility service is equal to, or greater than, X. Therefore, a "Rule of 85" would permit a member to retire when their age and service is at least 85. For example, a member age 55 with 30 years of service or age 60 with 25 years of service, etc. The Rule of 85 eligibility provision would be in addition to the current retirement eligibility rules outlined above.

Impact on Liabilities and Contributions

As shown in the table above, under current plan provisions, membership sub-groups with earlier membership eligibility dates have combinations of age and service for normal retirement eligibility that are equal to or less than 85. Specifically, (1) the age 55 with 25 years of service requirement for Regular Teachers and Higher Education members hired prior to January 1, 2011, and School Lunch Plan A members or (2) the age 55 with 30 years of service for Lunch Plan B members hired prior to July 1, 2015. Alternatively, membership sub-groups with later membership eligibility dates have retirement eligibility requirements that are primarily driven by age rather than service. Therefore, the introduction of the Rule of 85 eligibility requirement has a significantly larger impact on newer sub-groups because they become eligible for normal retirement earlier than they otherwise would under current retirement eligibility rules.

This has a number of impacts on expected results.

1. The near-term impact on liabilities and contribution rates is muted, because the Rule of 85 offers limited additional benefits to a large proportion of current plan members who will become eligible for normal retirement under current rules prior to reaching a new Rule of 85 provision.

2. The long-term increase in the normal cost rate, and therefore the contribution rate, is expected to grow as current members retire and are replaced with new members who experience larger increases in normal cost under this change.

The near-term impact analysis outlined below utilizes the current retirement assumptions as adopted for the June 30, 2023 (most recent adopted by PRSAC) and 2024 Actuarial Valuations and population data as of June 30, 2024, provided by the System's actuary.

The long-term, or "ultimate," increase in normal cost rate is based on the change associated with the newest membership sub-group for a particular employee class, i.e., Regular Teachers, Higher Education, and Lunch Plan B all hired after June 30, 2015, also utilizing the retirement assumptions and population from the June 30, 2024 Actuarial Valuation.

In addition to any expected changes in normal cost, this type of change is subject to the Louisiana Constitution, which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years. The following table illustrates the expected increase in annual contributions in the near-term (both increases in normal cost and the required amortization payments).

Summary of Near-Term Contribution Impact			
	Regular Teachers, Lunch Plans	**Higher Education**	**Aggregate**
Increase in Normal Cost Rate	0.35%	0.15%	0.31%
Increase in Annual Normal Cost	$15,000,000	$1,500,000	$16,500,000
Increase in UAL	$145,000,000	$15,000,000	$160,000,000
Increase in UAL Amort Payments	$20,000,000	$2,000,000	$22,000,000
Increase in Annual Contribution	$35,000,000	$3,500,000	$38,500,000

It is expected that normal cost rates will change gradually over an extended period of time to reflect a shift in employee demographics from older membership sub-groups to the new membership sub-groups. While this cost impact will take time to materialize, it is important to understand the long-term implications of any benefit change. The following table illustrates the expected increase in normal cost rates for the newest membership sub-group for a given employee class and is therefore the expected long-term increase in total normal cost rates, given current retirement assumptions.

Long-Term Increase in Normal Cost Rates	
Regular Teachers, Lunch Plans	0.80%
Higher Education	0.20%

Sensitivity Analysis

The current retirement assumptions are provided on both an age and service basis and were developed by examining actual experience for retiree groups during the period July 1, 2017, through June 30, 2022. No members of the newest membership sub-groups are currently eligible for retirement, and no adjustment has been made to reflect the differences in retirement eligibility for the various sub-groups. Given the older sub-groups have more generous retirement eligibility provisions, this might represent a more conservative approach than what may occur in reality under current plan provisions. However, changing normal retirement eligibility provisions is likely to impact actual retirement experience. While predicting how any new provision will ultimately impact participant behavior is extremely difficult, it is worth looking at some potential "extreme" scenarios to get an idea of the potential risk of making this change.

For this purpose, we present the expected increase in normal cost rates for the newest membership sub-groups using current retirement assumptions and by assuming a 100% retirement rate at the point a member reaches the Rule of 85 eligibility provision. Retirement rates at all other age/service combinations remain the same as the June 30, 2024 Actuarial Valuation.

This stress test does not account for increases due to changes in population demographics or any other actuarial assumptions, which could further increase (or decrease) expected costs.

Long-Term Increase in Normal Cost Rates		
	Assumption Set	
	Current	**100% Retirement at Rule of 85**
Regular Teachers, Lunch Plans	0.80%	1.45%
Higher Education	0.20%	1.00%

It is important to note that, given current experience a 100% retirement at Rule of 85 assumption represents an extreme and is not likely to fully materialize in actual experience. Nonetheless, it can provide useful information, specifically illustrating that if long-term experience moves towards earlier retirement ages, costs can be expected to rise meaningfully higher than current rates. Further, when considered with other potential changes frequently discussed by the legislature, such as permitting more members the ability to retire and return to work while receiving a retirement benefit, these higher "extremes" become more likely to be realized.

APPENDIX A – Actuarial Disclosures

Intended Use

This report was prepared to provide timely information related to an area of interest to the legislature or based on a legislative request. It is intended to be used by the legislature and those designated or approved by the legislature. Other readers of this report are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The report, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this report could result in its misuse and may mislead others. The Louisiana Legislative Auditor is not responsible for unauthorized use of this report.

This report should not be construed as providing tax advice, legal advice, or investment advice. It should not be relied on for any purpose other than the purposes described herein. This report assumes the continuing ability of the System to collect the contributions necessary. A determination regarding whether or not the System is actually willing and able to do so in the future is outside our scope of expertise and was not performed.

Actuarial Data, Methods, and Assumptions

Unless indicated otherwise, this report was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (PRSAC), and information furnished by the System, the System's investment consultant, and the System's actuary. We checked for internal reasonability and year-to-year consistency, but did not audit the data. The assumptions and methods are reasonable for the purpose of this analysis. We are not responsible for the accuracy or completeness of the information provided by outside parties.

For certain calculations that may be presented herein, we have utilized commercially-available valuation software. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this report relies on calculations performed by the Systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement System.

Conflict of Interest

There are no known conflicts that would compromise the ability to present an unbiased statement of actuarial opinion.

Risks Associated with Measuring Costs

This report is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51.

A full actuarial determination of the retirement System's costs, actuarially-determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. Unless otherwise indicated, the assumptions used to determine the retirement System's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by PRSAC.

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the System's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);

2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;

3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;

4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;

5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits at rates that differ from what was assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of this report does not include a complete analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of this analysis. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

Certification

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974 and meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

Kenneth J. "Kenny" Herbold, ASA, EA, MAAA
Director of Actuarial Services
Louisiana Legislative Auditor

October 23, 2024
Date