

Prior Reforms Made to LASERS & TRSL

Public Retirement Systems' Actuarial Committee
September 28, 2015



Legislative Reforms

- The state has enacted significant reforms over the last 20+ years.
 - » Reforms can impact:
 - Level of benefits
 - Funding
- LASERS and TRSL members do not participate in Social Security.

Legislative Reforms

1987	ACT 947	<ul style="list-style-type: none"> ▪ C.A. Requires retirement systems to be actuarially sound ▪ IUAL (incurred prior to 6/30/88) must be paid off by 2029
	ACT 724	<ul style="list-style-type: none"> ▪ TRSL-Increased the employee contribution rate from 7% to 8%
1988	ACT 81	<ul style="list-style-type: none"> ▪ LASERS-Increased rank and file employee contribution rate from 7% to 7.5%

Legislative Reforms

1990	ACT 625	<ul style="list-style-type: none"> ▪ TRSL-Limited sick and annual leave that can convert to service credit at retirement
1995	ACT 577	<ul style="list-style-type: none"> ▪ TRSL-Reduced salary spiking cap from 25% to 10%
1997	ACT 981	<ul style="list-style-type: none"> ▪ TRSL-<i>Members hired on or after 7/1/99</i> <ul style="list-style-type: none"> • Required actuarial reduction in benefits for 20-year early retirement eligibility (\$15.6M payroll savings after 20 years)

Legislative Reforms

2005	ACT 75	<ul style="list-style-type: none"> ▪ LASERS-Rank and File members hired after 7/1/06 <ul style="list-style-type: none"> • Increased employee contribution rate from 7.5% to 8.0% • Limited retirement eligibility to 10 years of service at age 60 • Increased FAC from three to five years • Reduced salary spiking cap from 25% to 15% (projected savings \$750M)
2007	ACT 484	<ul style="list-style-type: none"> ▪ C.A. Requires retirement provisions with a cost to have a funding source and be paid within 10 years

Legislative Reforms

2009	ACT 497	<ul style="list-style-type: none">▪ Restructured the UAL▪ Reduced payments in future years▪ Prioritized excess investment earnings' application to debt▪ Restructured COLA eligibility and granting requirements▪ Used legislative appropriations and funds from side accounts to reduce the UAL (TRSL savings approx. \$800M)
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Legislative Reforms

2010	ACT 992	<ul style="list-style-type: none"> ▪ LASERS -<i>New members hired on or after 1/1/2011</i> <ul style="list-style-type: none"> • Consolidated plans for new hires; Hazardous Duty plans consolidated and benefits adjusted ▪ TRSL-<i>New members hired on or after 1/1/2011</i> <ul style="list-style-type: none"> • Increased retirement eligibility age; established a five-year FAC (projected savings \$1.2B)
	ACT 921	<ul style="list-style-type: none"> ▪ TRSL-Restricted retiree return-to-work provisions (\$108M annual savings after 5 years)
	ACT 1048	<ul style="list-style-type: none"> ▪ C.A. Requires 2/3 legislative approval of new retirement provisions with a cost

Legislative Reforms

2011	ACT 422	<ul style="list-style-type: none"> ▪ C.A. Provides for a minimum of nonrecurring revenue to be applied toward reducing the IUAL (TRSL-\$6.2M/ LASERS-\$2.7M appropriated in 2015)
2012	ACT 868	C.A. Requires forfeiture of retirement benefits by certain members convicted of certain felony acts associated with public employment.

Legislative Reforms

2014	ACT 399	<ul style="list-style-type: none"> Increased the amount of excess investment earnings that will be applied toward the UAL, tied to the systems' assets Restructured COLA granting requirements (Long-term savings = TRSL-\$3.0B/LASERS-\$1.8B)
	ACT 226	<ul style="list-style-type: none"> Increased the retirement eligibility age from 60 to 62 for new hires (TRSL-\$31M savings; LASERS-\$16M savings)
	ACT 571	<ul style="list-style-type: none"> Changed actuarial method from Projected Unit Credit to Entry Age Normal for greater budget stability

Acts 497 of 2009 and 399 of 2014

- Bottom Line Summary:
 - » Reduced Retirement System Debt (UAL).
 - Additional investment gains used to reduce debt.
 - » Eliminated Balloon Payment.
 - » Debt Paid off Sooner.
 - » IUAL paid by 2028 instead of 2029.
 - » Most of remaining UAL paid by 2038 instead of 2040.
 - » \$1.8 Billion Savings for LASERS.
 - » \$3 Billion Savings for TRSL.

Act 497 of 2009

- New debt payment plan.
- Created “hurdles” - requiring first \$100 Million in LASERS excess investment gains and first \$200 Million in TRSL excess investment gains be used to reduce debt before funds put in Experience Account for future COLAs.

Act 399 of 2014

- Limited frequency and amount of future COLAs.
- Increased amount of System investment gains used to reduce UAL.
- Indexed the original LASERS \$100 million and TRSL \$200 million hurdle.
 - » As System's assets grow, the amount of money applied to UAL also increases, based on a percentage.

Cost-of-Living Adjustments: Before and After

- Pre Act 399, System could deposit value of two 3% COLAs into the Experience Account.
- Now, if System is less than 80% funded, funds for only one COLA (currently based on 1.5% COLA) can be deposited in the Experience Account.

Act 497 and Act 399 Results

- Excess investment earnings that would have gone to fund COLAs are now used to reduce System debt.
- Size and frequency of COLAs now tied to funded level of the System.
- COLAs limited to every other year until the System is 85% funded.
- COLAs limited to first \$60,000 of a member's retirement benefit (indexed to the CPI-U as of July 1, 2015).

Overall Long-Term Savings

- LASERS
 - » **\$3 Billion** in expected long-term cost savings adopted by the Legislature.

- TRSL
 - » More than **\$5 Billion** in expected long-term cost savings adopted by the Legislature.

LASERS

Acts 497 and 399: Allocation of Gains to Reduce UAL rather than Experience Account - Through June 30, 2015

	Investment Gain and Contribution Surplus	Pre-Act 497/399		Post-Act 497/399	
		Reduce UAL	Experience Account	Reduce UAL	Experience Account
2010	0	0	0	0	0
2011	0	0	0	0	0
2012	0	0	0	0	0
2013	491,247,926	245,623,963	245,623,963	295,623,963	195,623,963
2014	472,809,676	236,404,838	236,404,838	468,219,552	4,590,124
2015	306,868,190	166,284,590	140,583,601	306,868,190	0
Total	1,270,925,792	648,313,391	622,612,402	1,070,711,705	200,214,087
Total Gains/Surplus		1,270,925,792		1,270,925,792	
Application of Gains		648,313,391	622,612,402	1,070,711,705	200,214,087

- Acts 497 of 2009 and 399 of 2014 shift the allocation a portion of investment gains and contribution variance surpluses to reduce the UAL rather than credit the Experience Account. The above table illustrates the impact of these Acts from 2010 through 2015.
- To date, \$422.4 million has been used to reduce the UAL rather than credit the Experience Account.

TRSL
Acts 497 and 399: Allocation of Gains to Reduce UAL rather than Experience Account - Through June 30, 2015

	Investment Gain and Contribution Surplus	Pre-Act 497/399		Post-Act 497/399	
		Reduce UAL	Experience Account	Reduce UAL	Experience Account
2010	0	0	0	0	0
2011	0	0	0	0	0
2012	7,169,301	7,169,301	0	7,169,301	0
2013	639,473,813	319,736,907	319,736,907	419,736,907	219,736,906
2014	734,622,453	387,456,051	347,166,403	564,287,565	170,334,888
2015	<u>630,905,879</u>	<u>361,095,266</u>	<u>269,810,613</u>	<u>630,905,879</u>	<u>0</u>
Total	2,012,171,446	1,075,457,524	936,713,922	1,622,099,652	390,071,794
Total Gains/Surplus	2,012,171,446	2,012,171,446		2,012,171,446	
Application of Gains		<u>1,075,457,524</u>	<u>936,713,922</u>	<u>1,622,099,652</u>	<u>390,071,794</u>

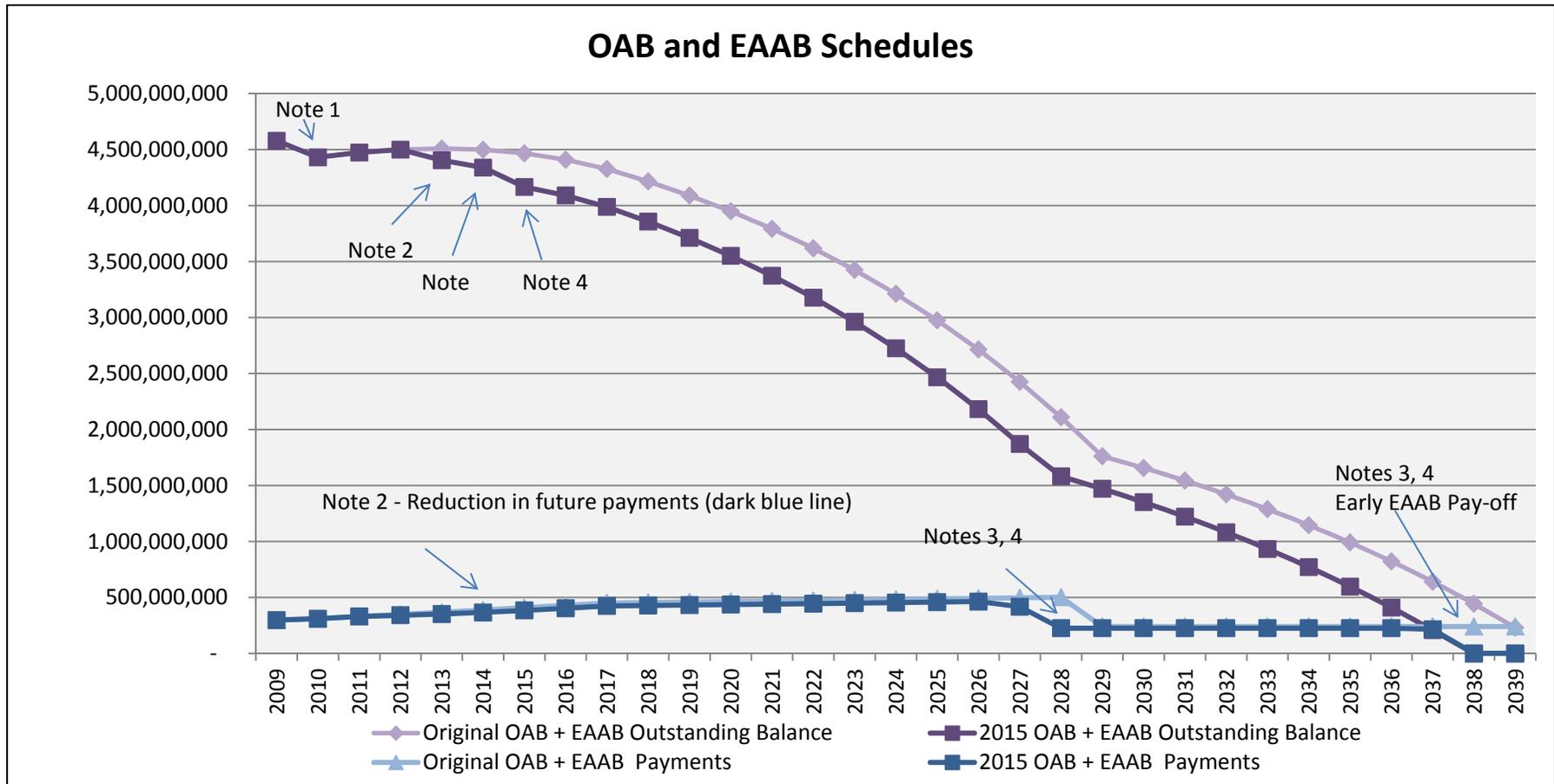
- Acts 497 of 2009 and 399 of 2014 shift the allocation a portion of investment gains and contribution variance surpluses to reduce the UAL rather than credit the Experience Account. The above table illustrates the impact of these Acts from 2010 through 2015.
- To date, \$546.6 million has been used to reduce the UAL rather than credit the Experience Account.

OAB and EAAB

- **Original Amortization Base (OAB):** Amortization schedule that includes the IUAL and negative schedules created between 1993 and 2008. This schedule must be paid off by 2029.
- **Experience Account Amortization Base (EAAB):** Amortization schedule that includes the liability resulting from Act 588 of 2004, which zeroed out the experience account, and positive schedules created between 1993 and 2008. This schedule must be paid off by 2040.

LASERS

Acts 497 and 399: Application of Gains through 2015 to Reduce UAL and UAL Payments



- Act 399 allows for reamortization once the system attains a funded ratio of 85%. The graph illustrates the current OAB and EAAB, prior to any applicable reamortization.

LASERS

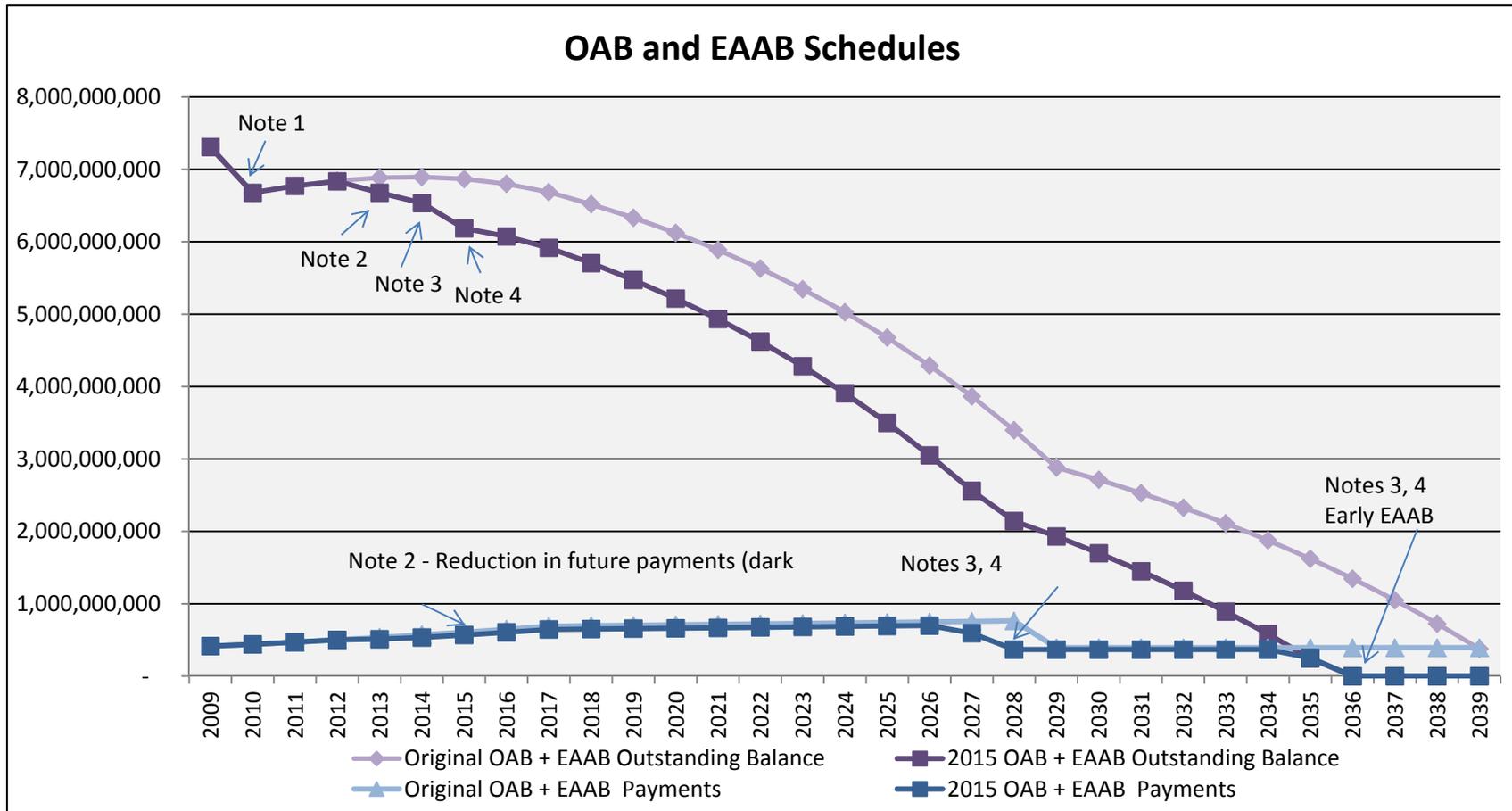
Acts 497 and 399: Application of Gains through 2015 to Reduce UAL and UAL Payments

Graph Notes:

- Note 1 - In 2010, Act 497 applied \$215.5M from the Experience Account, Texaco Account and legislative appropriations to immediately reduce the UAL.
- Note 2 - In 2013, \$100M in investment gains were allocated to OAB and EAAB. Schedules were reamortized, reducing future UAL payments.
- Note 3 - In 2014, \$50M in investment gains was allocated to OAB and EAAB. Per Act 399, schedules were not reamortized resulting in earlier payoff.
- Note 4 - In 2015, \$100M in investment gains and \$25.7M contribution surplus were allocated to OAB and EAAB. Per Act 399, schedules were not reamortized resulting in earlier payoff.

TRSL

Acts 497 and 399: Application of Gains through 2015 to Reduce UAL and UAL Payments



- Act 399 allows for reamortization once the system attains a funded ratio of 85%. The graph illustrates the current OAB and EAAB, prior to any applicable reamortization.

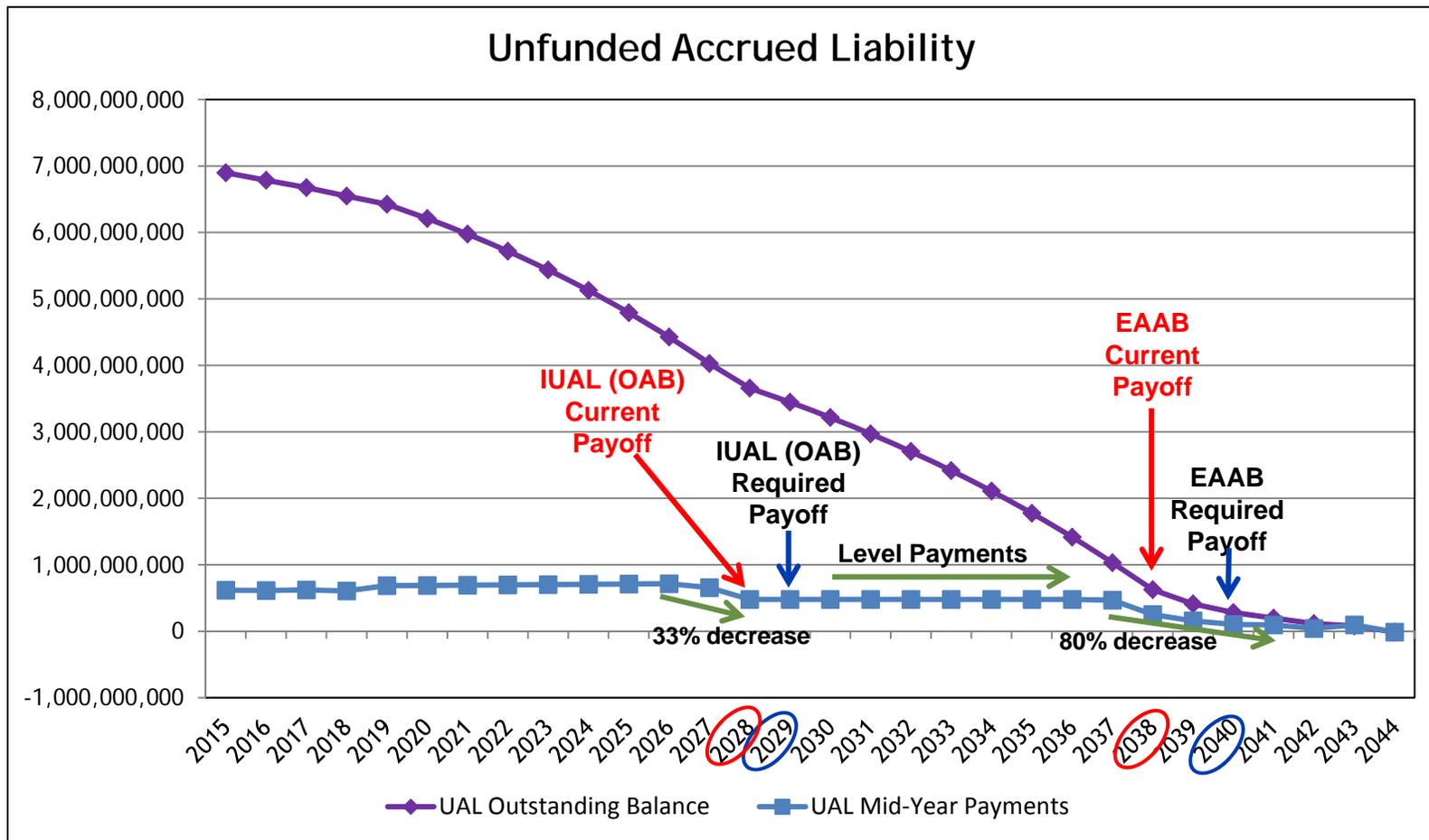
TRSL

Acts 497 and 399: Application of Gains through 2015 to Reduce UAL and UAL Payments

Graph Notes:

- Note 1 - In 2010, Act 497 applied \$801.5M from the Experience Account, Texaco Account and legislative appropriations to immediately reduce the UAL.
- Note 2 - In 2013, \$200M in investment gains were allocated to OAB and EAAB. Schedules were reamortized, reducing future UAL payments.
- Note 3 - In 2014, \$100M in investment gains and a \$40.3M contribution surplus was allocated to the OAB and EAAB. Per Act 399, schedules were not reamortized resulting in earlier payoff.
- Note 4 - In 2015, \$200M in investment gains and \$91.3M contribution surplus were allocated to OAB and EAAB. Per Act 399, schedules were not reamortized resulting in earlier payoff.

LASERS (UAL)



TRSL (UAL)

