2023 LAPERS: Legislative Update

Act 184: New Model for Funding and Granting PBIs
(for the state public retirement systems)

	OLD MODEL (Experience Account)	NEW MODEL (PBI Funding Account)
PBI Type	▪ Ad Hoc (not automatic benefit)	▪ Ad Hoc (not automatic benefit)
Funding Mechanism	▪ Excess investment returns (gain-sharing) which are indirectly funded through employer contributions	▪ Direct funding through employer contributions, not to exceed 2.5% of payroll
Deposits	▪ 50% of excess earnings after allocation of threshold amount (hurdle) to system UAL deposited into experience account	▪ One-half of decrease in total employer contribution rate, growing until deposits into the new PBI funding account reach 2.5% of payroll; subject to employer rate safeguards
Balance Cap	▪ Not to exceed cost of one PBI; cap increases to cost of two PBIs when system reaches 80% funded	▪ Not to exceed cost of two PBIs
PBI Amount	▪ Based on system funded level, investment performance, and CPI-U (granting matrix)	▪ Up to 2% of benefit

Act 184: New Model for Funding and Granting PBIs

(for the state public retirement systems)

	OLD MODEL (Experience Account)	NEW MODEL (PBI Funding Account)
Granting Criteria	▪ Based on sufficient funding in the experience account; also based on system funded level and investment return (granting matrix)	▪ Based on sufficient funding in the PBI funding account
Approval to Grant	▪ Legislative approval (2/3 vote); subject to governor's veto	▪ Legislative approval (2/3 vote); subject to governor's veto
Eligibility Criteria	▪ Regular retirees: Age 60; retired 1 year	▪ Regular retirees: Age 62; retired 2 years (once PBIs begin to be paid from the new PBI funding account)
Maximum PBI	▪ Calculated on first $60,000 of benefit (indexed to CPI-U)	▪ Calculated on first $60,000 of benefit (not indexed)
Frequency of PBI	▪ Based on sufficient funding and investment return (granting matrix)	▪ Projected to be every two to three years for LASERS and TRSL. Likely, less frequent for LSERS and LSPRS.

COLAs for Louisiana Statewide Systems

Granting Criteria	▪ Boards of statewide systems (9) have limited rights to grant COLAs when funded ratios and investment earnings meet certain conditions (per statute). ▪ Statewide system boards can vote to grant COLAs when certain legislated rules are met—COLAs for state systems require specific legislative approval.
COLA Type	▪ COLAs for statewide systems have always been ad hoc—available in only limited circumstances.
Frequency	▪ Limitations and differences in total employer costs have led to systems having very different COLA frequencies.
Funding Points	▪ Timing COLAs based upon investment gains can lead to a lack of predictability and—depending on market conditions—can lead to periods where COLAs are not available for many years. This has left many systems looking for a better way to grant COLAs. ▪ The already existing **Funding Deposit Accounts** were altered to include the prefunding of COLAs as one of their allowed purposes (with the exception of Firefighters' Retirement System)

A look at Funding Deposit Accounts (FDAs)

1997	▪ Prior to creation of the first FDAs, a few statewide systems were granted legislative approval to require employers to maintain the employer contribution rate at a level above the minimum in certain years. ▪ At that time, any additional funds collected were used to immediately reduce UAL or to offset normal costs.
2009	▪ The first FDAs were created to allow these additional employer contributions to be accumulated in a side fund. ▪ The balance in a FDA is not considered when setting the systems' minimum employer contribution rates.
Prior to 2015 Regular Session	▪ A number of statewide systems had FDAs, but could not specifically use them to prefund COLAs. ▪ The original uses of funds set aside in FDAs were (1) reduction of plan UAL; (2) pay all or a portion of annual employer contributions; and (3) reduce long-term normal costs.
Since 2015	▪ Most of the statewide systems have been authorized to use funds set aside in the FDAs to prefund COLAs.

Prefunding of Statewide System COLAs

- Without prefunding, ad hoc COLAs cause an immediate increase in employer contributions that will be spread either over a specified number of years or the future lifetime of COLA recipients (depending on funding method)
- Allowing systems to collect additional employer contributions over a number of years in order to accumulate sufficient funding to offset the lifetime value of a COLA/PBI, has enabled these systems to provide ad hoc COLAs to retirees without affecting the employer contribution rate at the time of granting.
- To avoid an immediate impact on the employer contribution, funds equal to the present value of additional benefits are transferred from the FDA (which is excluded from assets used in determining the employer contribution rate) to the assets used to determine the employer rate.
- Future interest and mortality gains/losses can be affected by COLAs previously granted.

Act 108 and MPERS Board of Trustees' Resolution: New MPERS Model for Funding and Granting COLAs

	OLD MODEL (Matrix and Employers' "Charge Card")	NEW MODEL (Funding Deposit Account)
COLA Type	▪ Ad Hoc (not automatic benefit)	▪ No change
Funding Mechanism	▪ Directly funded over 15 years through additional employer contributions (at actuarially assumed rate of return)	▪ Direct funding through additional employer contributions of 0.85% of payroll (but 0.425% for FY 24)
Deposits	▪ Not applicable. MPERS previously had no funding deposit account at all.	▪ Additional employer contributions of 0.85% of payroll, plus interest at valuation interest rate (currently, 6.75%)
Balance Cap	▪ Not applicable. MPERS previously had no funding deposit account at all.	▪ Not capped
COLA Amount	▪ Based on system funded level, investment performance, and CPI-U (granting matrix); up to 3% of benefit	▪ Up to 3% of benefit

Act 108 and MPERS Board of Trustees' Resolution: New MPERS Model for Funding and Granting COLAs

	OLD MODEL (Matrix and Employers' "Charge Card")	NEW MODEL (PBI Funding Account)
Granting Criteria	▪ Based on system funded level and investment return (granting matrix)	▪ Based on sufficient funding in the funding deposit account; **<u>sole</u>** method of granting COLAs
Approval to Grant	▪ Board of Trustees, provided granting criteria was met	▪ Board of Trustees
Eligibility Criteria	▪ All retirees, survivors, and beneficiaries retired at least 1 year; ▪ No age limit unless it was the 2% of original benefit COLA (limited to over age 65)	▪ All retirees, survivors, and beneficiaries retired at least 1 year; ▪ No age limit unless board sets one ▪ Board has broad discretion under the Act to set criteria.
Maximum PBI	▪ No limit	▪ No limit. ▪ Board has broad discretion under the Act to tailor affordability based upon account balance; can be non-recurring.
Frequency of PBI	▪ Based on sufficient funding and investment return (granting matrix)	▪ If recurring, projected to be about 5 years. ▪ If non-recurring, could be sooner and more frequent, but no more than 3 years apart.

Legislation Affecting Retirement Systems

Environmental, Social, and Governance (ESG)

House Concurrent Resolution 70 (Rep. Beaullieu): Requests that the state treasurer and the directors of the state/statewide retirement systems report on contracted investment advisors and companies known to discriminate against the fossil fuel industry through ESG policies. Specifies information to be included in the report and sets October 1, 2023, as the date by which report must be submitted to the Legislature.

House Concurrent Resolution 110 (Rep. Miguez): Requests the boards of state/statewide retirement systems uphold their fiduciary duty when making financial decisions and to not allow ESG policies to influence their investment decisions.

Legislation Affecting Retirement Systems

Government Pension Offset (GPO) and Windfall Elimination Provision (WEP)

House Concurrent Resolution 67 (Rep. M. Johnson): Asks Congress to take actions necessary to review the GPO/WEP Social Security benefit reductions and to eliminate or reduce them by supporting H.R. 82 and S. 597 of the 118th Congress and all similar legislation.

House Concurrent Resolution 69 (Rep. M. Johnson): Requests the House and Senate retirement committees study and make recommendations regarding benefit options for future state employees to avoid penalties associated with the GPO/WEP Social Security benefit reductions. Seeks input from state attorney general, state/statewide retirement systems, and Louisiana’s congressional delegation.

Legislation Affecting Retirement Systems

Electronic Meetings

Act 393 – formerly Senate Bill 201 (Sen. Hewitt): Requires certain public bodies to adopt rules and procedures to allow (1) individuals with disabilities or their caregivers to participate in meetings electronically (teleconferencing or videoconferencing), if requested prior to the meeting; and (2) members of the public body to electronically participate and vote in the meeting. Provides the option for certain public bodies to hold meeting by electronic means, subject to restrictions and requirements.

Administrative Procedures Act (Rulemaking)

Act 442 – formerly House Bill 221 (Rep. Wright): Allows Senate President/House Speaker to establish an Administrative Procedures Act select committee on oversight for respective chamber with same power/authority granted to other standing/oversight subcommittees involved in review of rulemaking proposals/changes. Effective January 8, 2024.

Legislation Affecting Retirement Systems

Louisiana Transparency Portal

Act 446 – formerly House Bill 597 (Rep. Ivey): Establishes the Louisiana Transparency Portal (online website) to replace the Louisiana Checkbook website; outlines oversight responsibilities of legislative auditor; state agency data/reports/contracts to be maintained in portal; funding; and steps to phase out LA Checkbook website. Implementation is subject to appropriation.

Payments to UAL

Act 107 – formerly House Bill 47 (Rep. Nelson): A proposed constitutional amendment that would require a minimum 25% of nonrecurring state revenue to be appropriated to the UALs of the four state retirement systems, beginning FY 2024-25. Becomes effective if enacted in statewide election on October 14.