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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

I would like to take the opportunity to wish you and your family a Merry Christmas and Happy New Year. This is the last newsletter before the end of the calendar year. Look for the first newsletter of 2014 to be published prior to the release of the FY 15 Executive Budget Recommendation.

FOCUS POINTS

Tax Amnesty 2013, Preliminary Summary
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Department of Revenue (Department) has reported preliminary information regarding the 2013 tax amnesty program. A three-phase amnesty program was enacted in Act 421 of 2013. The amnesty is to be offered in the fall of each of the three years 2013 – 2015. The first phase was offered from September 23 – November 22 of this year. Participants were offered a 100% waiver of penalties and a 50% waiver of interest in this first phase. In the 2014 phase, the Act provides for waivers of 0% of interest and 15% of penalties, and in the 2015 phase the waivers offered are 0% of interest and 10% of penalties. Table 1 below summarizes the program's collections performance as reported by the Department through December 10, 2013.

As is typical with broad tax amnesty programs, the bulk of the collections are corporate taxes; 83.6% of the reported total collections. These are of particular interest because they typically reflect ongoing tax disputes that are likely to be collected in future periods. The likelihood of collection is the primary motivation for participating in the amnesty program in the first place. The participant receives the benefit of penalty and interest waiver while the state receives an acceleration of payments from future periods into the current period. This is basically what amnesties are understood to do, shift receipts from future periods into the current period. Consequently, future period receipts are negatively affected.

(Table 1)

Share of Total $	Tax	Accounts	Cash As Payment	Tax Credits As Payment	Total Payments
0.9%	Severance Tax	60	$3,949,711	$0	$3,949,711
83.6%	Corporate Income & Franchise Taxes	7,811	$296,964,495	$65,046,360	$362,009,639
8.7%	Individual Income Tax	39,392	$35,888,734	$1,808,329	$37,627,715
6.0%	General Sales Tax	2,864	$25,788,020	$1,058	$25,787,811
0.01%	Various Excise Taxes	69	$64,108	$0	$62,760
0.8%	Non-REC Taxes	20	$3,415,661	$0	$3,415,661
100.0%	Total Program	50,216	$366,070,730	$66,855,748	$432,853,297

Also of particular interest with this amnesty program is the Department's acceptance of tax credits as payment of amnesty liabilities. Over 15% of total reported program payments and nearly 18% of corporate payments were accepted by the Department in the form of tax credits. Regardless of the program exceeding a target level of receipts, this seems at odds with the primary motivation of the program to collect resources to support the state budget. The Department indicates that under R.S. 47:1675(H) tax credits can be used to pay any outstanding tax liability and consequently payment with credits could not be refused. Tax credit payments are not cash resources that can be

EDUCATION

Decrease in Optional Retirement Plan (ORP) Normal Cost Contribution Rate
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Background
The Optional Retirement Plan (ORP) was created by Act 90 of the 1989 Regular Legislative Session and is a defined contribution plan option for employees of public higher education institutions and boards in LA who would otherwise be members of the Teachers' Retirement System of LA (TRSL) defined benefit plan. ORP operates under the U. S. Internal Revenue Code §401(a) and allows account holders to save and invest their retirement assets on a tax-deferred basis through private carriers contracted with the program. ORP was conceived to enhance recruitment of higher education faculty and staff by providing a retirement benefit with increased portability for participants while keeping them indistinguishable from traditional plan members for the employer and retirement system.

Eligibility to participate in ORP is based on job classification. Academic and unclassified employees of LA public colleges and universities are eligible to participate in ORP. Employees of constitutionally established boards that manage public institutions of higher education are also eligible for ORP. Eligible employees must make an irrevocable election to participate in either ORP or the traditional TRSL defined benefit plan within sixty days of their initial employment date.

Regardless of which retirement plan the member joins, the employer cost is the same. For both, the ORP and the defined benefit plan the employer contribution is made up of the normal cost and the unfunded accrued liability (UAL) payments.

According to the Board of Regents, there are currently 10,060 employees participating in the traditional defined benefit plan and 7,507 members enrolled in the ORP.

Normal Cost Contribution Rates
"Normal Cost" for TRSL is equal to the employer's share of the present value of future retirement benefits that will be paid to employees that are currently attributable to the fiscal year. The TRSL aggregate normal cost has declined from 6.95% of payroll in FY 09 to 5.04% of payroll recommended for FY 15 based on the TRSL valuation report dated 11/5/13. TRSL normal costs have steadily declined since FY 08 due to legislation lowering defined benefit plan costs, changes in member demographics, and changes in actuarial assumptions.

Act 483 (HB 61) of the 2012 Regular Legislative Session created a cash balance retirement plan and mandated participation for all non-hazardous duty members of LASERS and of higher education employees in TRSL hired after July 1, 2013. Based on the valuation of the new plan the employer normal cost rate was set at 1.8% of payroll for those employees for the FY 14. SB 16 of the 2013 Regular Session attempted to increase the employer normal cost rate for ORP plan members. The bill passed the Senate but was not brought to the House Floor for a vote. Additionally, House Concurrent Resolution 2 suspended the implementation of the Cash Balance Plan pending a determination from the Internal Revenue Service (IRS) of the Social Security equivalency of the new plan. On June 28, 2013 the LA Supreme Court ruled that Act 483 (cash balance plan) was unconstitutional.

Additionally, Act 716 of the 2012 Regular Legislative Session required calculation of individualized employer contribution rates for K-12 and higher education plan members for FY 13 and thereafter. The FY 14 higher education normal cost rate is 5.18%. The TRSL valuation report dated 11/5/13 and adopted by the TRSL Board recommends a higher education employer normal cost rate of 3.66% for FY 15, representing a decrease of 1.52%.

The recommended reduction in employer normal cost from FY 14 to FY 15 is due to actuarial assumption changes based upon plan experience. The major actuarial assumption changes for higher education plan members are as follows:

1. Retirement patterns and assumptions were revised.
2. Employment withdrawal/termination rates were higher than expected.
3. Overall salary increases were less than expected.
4. Accrued leave conversions to service credit were reduced in recognition of long-time statutory limits.

Impacts
The reduction in the TRSL normal cost from FY 14 to FY 15 will save the public colleges and universities an estimated $15.9 M in mandated costs for FY 15 due to lower employer contributions to TRSL. The estimated savings is based on FY 14 salary data from the Board of Regents for all higher education faculty and staff participating in both the traditional and the optional plans multiplied by the percentage reduction in the employer contribution from FY 14 to FY 15.

However, the drop in the TRSL normal contribution rate will automatically decrease the ORP employer match rate; $7.8 M of the total estimated savings is associated with ORP participants. This reduction in rates could have a detrimental impact on recruitment of new faculty and staff. Furthermore, a significant reduction in the employer match rate may decrease employee morale and increase turnover of existing faculty and staff.

As an example, the table below reflects the employer contributions made to a member's ORP account over the past six years, as well as the projected receipts for FY 15. The constant salary is reflective of the fact that virtually no merit increases have been awarded at most institutions over this period.

Fiscal Year	Annual Salary	Normal Cost Rate	Employer Contribution
FY 08-09	$68,600	6.95%	$4,768
FY 09-10	$68,600	5.76%	$3,951
FY 10-11	$68,600	5.70%	$3,910
FY 11-12	$68,600	5.97%	$4,095
FY 12-13	$68,600	5.68%	$3,896
FY 13-14*	$68,600	5.18%	$3,556
FY 14-15*	$68,600	3.66%	$2,511

** The TRSL aggregate normal cost has declined from 6.95% of payroll in FY09 to 5.04% of payroll recommended for FY15. Act 716 of 2012 Regular Session requires individual rates for higher education members effective July 1, 2013.*

Information presented by LSU to the legislature during the 2013 Regular Session revealed that LA's ORP is not competitive with defined contribution plans offered by other southern states. LSU's information showed that employer contributions (excluding Social Security) averaged 8%, and ranged from 6.3% to 10%. Furthermore, employers in other southern states contribute an additional 6.2% of payroll for Social Security benefits compared to no Social Security payments for ORP members because TRSL/ORP do not participate in the Social Security program.

Using the salary example above for a faculty member in Texas at a 4-year university; the employer contribution rate for FY 15 is 6.6% or $4,528. Institutions are authorized to offer a local employer supplement using local or other funding sources to bring that rate up to 8.5%, potentially providing an additional $1,166. Finally, the 6.2% Social Security contributions of $4,253 bring the total employer contribution payment to $9,947 for this employee; $7,574 more than the employer contributes in LA.

Maintaining the existing rate rather than moving to the reduced rate for FY 15 would preclude any cost savings for institutions. Increasing the contribution rate to the 2008-2009 rate of 6.95% would raise employer costs nearly $17 M in FY 15.