


**2014 REGULAR SESSION  
ACTUARIAL NOTE HB 1034**

<p><b>House Bill 1034 HLS 14RS-1276 Original</b></p> <p><b>Author: Representative Jerome Richard</b> <b>Date: April 9, 2014</b></p> <p><b>LLA Note HB 1034.01</b></p> <p><b>Organizations Affected: Municipal Employees' Retirement System</b></p> <p><b>OR INCREASE APV</b></p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 1034 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** Relative to the reduction in benefits of certain rehired retirees of the Municipal Employees' Retirement System

**Cost Summary:**

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

Actuarial Cost/(Savings) to Retirement Systems and OGB	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

**Estimated Actuarial Impact:**

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

**Estimated Fiscal Impact:**

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

<b>EXPENDITURES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<b>REVENUES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

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**Bill Information:**

**Current Law**

Under current law, the pension benefit of a retiree of the Municipal Employees Retirement System (MERS) who returns to work with an employer participating in MERS may be reduced or suspended completely. If monthly employment earnings of such a retiree plus his monthly pension benefit from MERS exceeds his final average monthly compensation, his monthly pension benefit for the next month will be reduced by his excess monthly income.

This rule applies to all retirees of MERS.

**Proposed Law**

HB 1034 provides an exception to current law for an elected official who is a MERS retiree. Such an official may collect his full monthly pension benefit from MERS plus receive his employment income as an elected official. Furthermore, if such an official has had his pension benefit from MERS reduced in the past because of this rule, then all such pension benefits shall be returned to the retiree.

**Implications of the Proposed Changes**

If HB 1034 is enacted suspension of benefit rules pertaining to MERS retirees will not apply to retirees returning to work as elected officials.

**Cost Analysis:**

**Analysis of Actuarial Costs**

**Retirement Systems**

HB 1034 contains benefit provisions having an actuarial cost. If HB 1034 is enacted, a retiree of MERS who returns to employment as an elected official will be exempt from suspension of benefit rules. Therefore the actuarial present value of future benefits will increase.

**Other Post-Employment Benefits**

There are no actuarial costs associated with HB 1034 for post-employment benefits other than pensions.

**Analysis of Fiscal Costs**

HB 1034 will have the following effect on fiscal costs.

Expenditures:

1. MERS expenditures (Agy Self-Generated) will increase because HB 1034 will require MERS to refund all retirement benefits withheld pursuant to current law to retirees who returned to work as elected officials.
2. MERS expenditures (Agy Self-Generated) will increase because HB 1034 will exempt retirees returning to work as elected officials from suspension of benefit rules. Therefore pension benefits payable by MERS will increase.
3. Expenditures from Local Funds will increase because employer contributions will increase to accommodate the larger benefit payments to retirees who are also elected officials.
4. It is expected that expenditures in one or more of the three years immediately following the 2014 legislative session will exceed \$100,000.

Revenues:

- MERS revenues (Agy Self-Generated) will increase because employer contribution requirements will increase.

**Actuarial Data, Methods and Assumptions**

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

**Actuarial Caveat**

There is nothing in HB 1034 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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**Actuarial Credentials:**

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

**Dual Referral:**

**Senate**

- 13.5.1: Annual Fiscal Cost  $\geq$  \$100,000  
 13.5.2: Annual Tax or Fee Change  $\geq$  \$500,000

**House**

- 6.8(F)(1): Annual State Fiscal Cost  $\geq$  \$100,000  
 6.8(F)(2): Annual State Revenue Reduction  $\geq$  \$500,000  
 6.8(G): Annual Tax or Fee Change  $\geq$  \$500,000