2019 REGULAR SESSION
ACTUARIAL NOTE HB 14

House Bill 14 HLS 19RS-224 **Reengrossed** **Author: Representative Carpenter** **Date: May 9, 2019** **LLA Note HB 14.03** **Organizations Affected:** **Municipal Police Employees' Retirement System** **Firefighters' Retirement System** **RE DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.** James J Rizzo **James J. Rizzo, ASA, MAAA** **Senior Consultant & Actuary** **Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor**

Bill Header: RETIREMENT/FIREFIGHTERS: Prohibits certain employees from rejoining the Firefighters' Retirement System and Municipal Police Employees' Retirement System

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. Net fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "Decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***net actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		Decrease
Other Post-employment Benefits (OPEB)		$0
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Decrease	Decrease
Other Post-employment Benefits	$0	$0
Other Government Entities	0	0
Total	Decrease	Decrease

Bill Information

Current Law

Current law provides that anyone who is employed by a parish, municipality, or fire protection district whose employees are also covered under the federal Social Security program may sign an affidavit and make an election to opt out of membership in the Municipal Police Employees' Retirement System (MPERS) or the Firefighters' Retirement System (FRS) as applicable.

Current law also requires a member who wants to rejoin the system while employed by the same parish, municipality, or fire protection district to repay his refunded employee contributions with interest within sixty days of reenrollment in the system.

Proposed Law

HB 14 prohibits a person who opts out of membership in FRS or MPERS from rejoining the system while he is employed by the same employer or any other employer whose employees are covered under the federal Social Security program. In addition, an employee who has opted out of FRS or MPERS and returns to work for an employer whose employees are not covered under the federal Social Security program may join or rejoin the system but may not purchase service credit for the period of time that he opted out of membership.

In an unrelated change, HB 14 also authorizes the Department of Public Safety and Corrections to provide FRS and MPERS with the name and social security number of each recipient of state supplemental pay.

Implications of the Proposed Changes

Present law exposes the systems to possible anti-selection by letting employees who have elected not to be covered by FRS or MPERS, to rejoin the systems later and to purchase credit for past service. Proposed law removes that possibility by not allowing such employees to rejoin the systems later on.

Also, reports from the Department of Public Safety and Corrections about those receiving state supplemental pay will improve the ability of FRS and MPERS to monitor the enrollment of employees of employers participating in the system.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be a decrease. The actuary's analysis is summarized below.

Current members of FRS and MPERS might be more likely to stay in their respective systems since they will lose the option to rejoin the systems once they elect to opt out of membership. This effect of this is not actuarially measurable

In addition, there is a potential for anti-selection under the current law since some employees may try to maximize their retirement benefits by leaving and rejoining the system when it is most beneficial to them. There would therefore be some level of protection to the systems by removing the option for employees to rejoin the system. Repaying previously refunded employee contributions with interest generally does not adequately compensate retirement systems for the exchange of receiving benefit credit for such years. The practice has been a cost to the systems and a benefit to the re-joining member. Prohibiting that practice is expected to be a savings to the retirement systems.

There would be no measurable cost impact from the additional reporting by the Department of Public Safety and Corrections.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, cannot be determined. It is therefore recorded as zero in the Actuarial Note Tables. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance subsidies provided to retirees cannot be determined without detailed information concerning each participating employer's own OPEB programs, if any. It is not known whether the OPEB programs of participating employers provide any subsidies (implicit or direct) to employees based on their membership in FRS or MPERS; thus, it is not known if this proposed legislation would have any effect on costs and liabilities for OPEB.

B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)

A detailed review of the actuarial data, methods or assumptions applicable to this retirement system was not made or required for the preparation of this Actuarial Note.

C. Actuarial Caveat
(Prepared by LLA)

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

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of HB 14 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. As repayments and resulting restoration of benefit credits decline, the benefits paid on account of benefit credits restored will decline. This will decrease the benefit expenditures from the retirement systems (Agy Self Generated), possibly beginning immediately.

   b. As repayments and resulting restoration of benefit credits decline, the employer contributions paid by participating entities (Local Funds) are expected to decline slightly. These effects would be recognized with decreases on their future employer contributions, possibly for the year 2020-21 and later.

3. Revenues:

   Revenue to the retirement systems (Agy Self Generated) is expected to decline as repayments of previous refunds of employee contributions with interest and future employer contributions decline as a result of this proposed legislation.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

   Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

OPEB Fiscal Cost: Table B

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   The effects cannot be determined.

3. Revenues:

   The effects cannot be determined.

C. <u>Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)</u>
(Prepared by Bradley Cryer, Director of Local Government Services, LLA)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities (other than the retirement systems or OPEB). Table C shows the estimated fiscal impact of the proposed legislation on such government entities. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
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	$ 0	$ 0	$ 0	$ 0	$ 0

   The proposed legislation will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

   The bill may impact employee recruitment and retention based on a change in benefits; however, these factors cannot be quantified. Accordingly, there is no direct material effect on government expenditures as a result of this measure.

3. Revenues:

   No measurable effects.

D. <u>Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

   Table D shows the estimated fiscal impact of the proposed legislation on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, table B, and Table C. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

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Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Credentials of the Signatory Staff:

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

☐ HB 14 contains a retirement system benefit provision having an actuarial cost.

No member of the Firefighters' Retirement System or the Municipal Police Employees' Retirement System will receive a larger benefit with the enactment of HB 14 than what he would have received without HB 14.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2019 regular session.

Senate

☐ 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Senate Finance

☐ 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

☐ 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:
Dual Referral to Appropriations

☐ 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:
Dual Referral: Ways and Means