2020 REGULAR SESSION
ACTUARIAL NOTE HB 15

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<td>House Bill 15 HLS 20RS-195
Reengrossed with Senate Committee Amendment #1917

Author: Representative Coussan
Date: May 25, 2020
LLA Note HB 15.04

Organizations Affected:
Parochial Employees' Retirement System of Louisiana
Municipal Employees' Retirement System

RE1 NO IMPACT APV</td>
<td>This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.

Lowell P. Good

Lowell P. Good, ASA, EA, MAAA
Actuarial Services Manager</td>
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Bill Header: RETIREMENT/LOCAL. Provides for membership of certain new hires of the Lafayette City-Parish Consolidated Government in the Parochial Employees' Retirement System of Louisiana.

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 local and state 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		$0
Other Post-employment Benefits (OPEB)		0
Total		$0
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	0	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Increase	0
State Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Under current law, if the governing authorities of a municipality and a parish consolidate into one government, in general, employees who were members of the Municipal Employees' Retirement System (MERS) at the time of consolidation remained members of MERS. All persons who became employed after such consolidation became members of the Parochial Employees' Retirement System of Louisiana (PERS).

However, current law also provides that any employee of the Lafayette City- Parish Consolidated Government (LCPCG) first employed on or after November 1, 2010, by a department created by the LCPCG Home Rule Charter, except for police and firefighters, would become a member of MERS. Any employee first employed on or after November 1, 2010, by the City Court of Lafayette (CCL), inclusive of the office of marshal, but exclusive of the judges of the city court, would also become a member of MERS.

Current law also provides that if any employer participating in MERS (not just LCPCG or CCL) either (a) terminates the agreement for coverage of its employees or (b) eliminates an employee position or class of positions covered by this system by contracting with a private entity for the work formerly done by employees in eliminated positions, such employer is required to remit the portion of the unfunded accrued liability which is attributable to the employer's participation in MERS as of the June 30th immediately prior to the date of termination or privatization. The amount due will be determined by the actuary employed by MERS using the entry age normal funding method and will either be paid in a lump sum or amortized over ten years in equal monthly payments with interest at MERS' actuarial valuation rate in the same manner as regular payroll payments to MERS, at the option of the employer.

Proposed Law

HB 15 provides that any employee of the LCPCG first employed on or after November 1, 2020, by a department created by the LCPCG Home Rule Charter, except for police and firefighters, will become a member of PERS instead of MERS. Any employee first employed on or after November 1, 2020, by the CCL, inclusive of the office of marshal, but exclusive of the judges of the city court, will also become a member of PERS, instead of MERS, provided membership eligibility conditions are satisfied.

In addition to the current law's provision relating to terminating the agreement for coverage or privatizing positions, HB 15 also provides that if any employer participating in MERS terminates any position covered by MERS through attrition, such employer is required to remit the portion of the unfunded accrued liability which is attributable to the employer's participation in MERS as of the June 30th immediately prior to the date of termination.

As under current law, the amounts due will be determined by the actuary employed by MERS using the entry age normal funding method and will be paid in a lump sum or amortized over ten years in equal monthly payments with interest at MERS' actuarial valuation rate in the same manner as regular payroll payments to MERS, at the option of the employer.

Implications of the Proposed Changes

HB 15 provides that certain employees of the LCPCG and CCL, first employed on or after November 1, 2020, will no longer become members of MERS but will instead become members of PERS.

Based on information from the MERS Plan actuary, Lafayette currently represents 16.3% of the active members and 17.5% of the retirees and survivors of MERS Plan A. The contributions to the Plan include a normal cost and payments toward the Frozen Unfunded Accrued Liability, and contributions are based on the active membership payroll.

Affected employees of LCPCG and CCL currently participating in MERS would remain in that system until termination or retirement, and contributions would continue to be paid into MERS by them and by their employer for them until termination or retirement.

Under HB 15, any MERS-participating employers that terminate any position covered by MERS through attrition will be directly responsible for the associated portion of the unfunded accrued liability. Furthermore, some employees of LCPCG or CCL hired on or after November 1, 2020 will be enrolled into PERS, not MERS.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

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 $0. The actuary's analysis is summarized below.

A change in the membership from MERS to PERS for some employees hired on or after November 1, 2020 does not change the amount or timing of benefit payments for the current members of MERS and PERS. However, more employees will become members of PERS and fewer employees will become members of MERS. These employees will accrue retirement benefits in PERS instead of MERS, and contributions to PERS would be required to fund the benefits while contributions to MERS for such new hires would not be necessary since no benefits would accrue.

The effect of amended HB 15 on the net actuarial present value of all benefits is expected to be no increase or decrease because the benefit levels provided to new hires under PERS is approximately the same as under MERS.

Under HB 15, if any MERS-participating employers eliminate positions covered by MERS, regardless of whether it is by reason of termination of agreement, privatizing, or attrition, the payroll base will be reduced and contribution rates will need to be increased on the remaining employers to generate the same level of income to finance prior accrued benefits. This can lead to greater contribution requirements if participation in MERS becomes more expensive and less attractive to the remaining employers and to any non-participating employers who may wish to join. HB 15 adds attrition to the conditions requiring a MERS-participating employer to pay off the directly associated portion of the unfunded accrued liability. The payoff may be satisfied with a lump sum or a ten-year amortization plan.

Based on discussions with the actuary for MERS, any ten-year amortization plan established by MERS and paid by LCPCG or CCL would reduce the otherwise-calculated present value of future normal costs financed over the payroll of remaining covered employees each year under the Frozen Attained Age Normal Actuarial Cost Method. Such reduction could be accomplished either by (a) treating any new ten-year amortization bases as a new Frozen Unfunded Actuarial Liability base, financed solely by LCPCG or (b) treating any new ten-year amortization base as an asset of the System (however, this treatment could be problematic for accounting purposes as well as funding purposes). Based on calculations in the most recent actuarial valuation, a ten-year amortization of the relevant portion of the unfunded accrued liability is a slight acceleration of payments compared to the current funding method.

2. **Other Post-employment Benefits (OPEB)**

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be $0. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance subsidies provided to retirees is not affected by the membership of certain employees of the LCPCG and CCL, first employed on or after November 1, 2020, or by requiring any participating employer to pay a portion of the unfunded accrued liability when they terminate any position covered by MERS through attrition.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (PRSAC). The 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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

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 IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

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	2020-21	2021-22	2022-23	2023-24	2024-25	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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

2. Expenditures:

   a. Expenditures by PERS (Agy Self Generated) are expected to increase beginning in 2020-21, when more new employees than currently expected will become members of PERS.

b. Expenditures by MERS (Agy Self Generated) are expected to decrease beginning in 2020-21, when fewer new employees than currently expected will become members of MERS.

c. The net effect on the expenditures (Agy Self Generated) is expected to be offsetting since the benefits are approximately the same.

d. Expenditures from the Local Funds will tend to increase to pay for a portion of the unfunded accrued liability existing on June 30th immediately prior to the date of termination when they terminate any position covered by MERS through attrition. To the extent that LCPCG, CCL or any other MERS-participating employers that eliminate MERS-covered positions through attrition elect to pay lump sums to MERS, it is expected to cause an increase in net total Local Funds' expenditures, even though LCPCG or CCL contributions for new hires would be lower under PERS. However, to the extent that LCPCG or CCL elect a ten-year amortization plan, the net total Local Funds' expenditures are expected to be approximately the same or somewhat lower recognizing the slightly higher amortization payments and the lower contributions for new hires under PERS. For other participating employers that eliminate covered positions through to attrition, the effect is expected to be a slight increase through either lump sums or accelerated amortization payments. On balance, an increase in Local Funds' expenditures is expected in the next five years.

Over a longer horizon, the LCPCG and CCL expenditures will level out, or decrease, since the required PERS contributions are expected to be lower than the required MERS contributions for the near term and longer horizon.

3. Revenues:

a. PERS revenues (Agy Self Generated) are expected to increase since higher employer contributions will be received for additional new hires covered.

b. MERS revenues (Agy Self Generated) are expected to decrease since lower employer contributions will be received for fewer new hires covered. The decrease in revenues will be partially offset by an increase in revenues for the portion of the unfunded accrued liability existing on June 30th immediately prior to the date of termination paid by the employers in a lump sum or in amortization payments when they terminate any position covered by MERS through attrition.

c. The net effect on the revenues (Agy Self Generated) is expected to be an increase over the next five years.

B. Estimated Fiscal Impact – OPEB
(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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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

2. Expenditures:

No measurable effects.

3. Revenues:

   No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 local government entities during the five year measurement period.

2. Expenditures:

   No measurable effects.

3. Revenues:

   No measurable effects.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by John Carpenter, Legislative Fiscal Officer)

1. Narrative

   Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 state government entities during the five year measurement period.

2. Expenditures:

   N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

3. Revenues:

   N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

<u>Credentials of the Signatory Staff:</u>

Lowell P. Good is 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of 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.

<u>Actuarial Disclosure: Risks Associated with Measuring Costs</u>

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;

5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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

☐ HB 15 contains a retirement system benefit provision having an actuarial cost.

Employees of the Lafayette City- Parish Consolidated Government who become member of PERS would not receive a larger benefit with the enactment of HB 15 than what they would have received without HB 15.

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

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 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