


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 25**

<p>House Bill 25 HLS 16RS-184 Engrossed with House Retirement Committee Amendment #1691</p> <p>Author: Representative Jack Montoucet Date: April 1, 2016</p> <p>LLA Note HB 25.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG DECREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 25 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to the reemployment of retirees of the Firefighters' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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 to Retirement Systems	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
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.

Actuarial Cost to:	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	\$0
Total	Decrease

Estimated Fiscal Impact:

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

EXPENDITURES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
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, if a retiree:

1. Returns to work, and
2. Is working on a full time basis, and
3. Is employed in a position that would require his membership in the Firefighters' Retirement System (FRS),

Then:

1. The re-hired retiree's benefit will be suspended,
2. The employer and the re-hired employee will contribute to FRS based on reemployment income, and
3. The employee will earn FRS service credits.

In addition, the re-employed retiree will not be able to change his benefit option when he eventually resumes retirement status.

Proposed Law

Under HB 25, if a retiree:

1. Returns to work, and
2. Is working full or part time, and
3. Is employed in any capacity for a fire department covered by FRS regardless of whether or not the position is covered by FRS.

Then:

1. The re-hired retiree's benefit will be suspended,
2. The employer and the re-hired employee will contribute to FRS based on reemployment income only if the employee is reemployed on a full-time basis, and
3. The employee will earn FRS service credits.

In addition, the re-employed retiree will not be able to change his benefit option when he eventually resumes retirement status.

Implications of the Proposed Changes

HB 25 will reduce the number of retirees of FRS willing to be re-employed in a fire department participating in FRS. Alternatively, HB 25 will reduce benefits payable to retirees who do return to work in capacity that qualifies for benefit suspension.

Cost Analysis:

Analysis of Actuarial Costs

HB 25 does not contain any benefit provisions having an actuarial cost.

Retirement Systems

HB 25 will have the following effect on actuarial related cost values.

1. Benefit payments for rehired retirees who satisfy the new criteria for benefit suspension will be eliminated.
2. Benefit accruals while re-employed are likely to provide benefit increases, but those increases will be negligible and the additional actuarial accrued liability incurred by FRS will be negligible.
3. Employee contributions in dollars will increase.
4. Employer contributions in dollars will increase, but the increase will be negligible. The required employer contribution rate will decrease, but covered payroll will increase. The end result is a negligible increase in the dollar amount of employer contributions.
5. The actuarial present value of future benefits will decrease because benefits will be suspended. As a result, employer contribution requirements will decrease. This decrease will be larger than the increase discussed in item 4 above.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 25 for post-employment benefits other than pensions.

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Analysis of Fiscal Costs

HB 25 will have the following effects on fiscal costs during the five year fiscal measurement period.

Expenditures:

1. Expenditures from FRS (Agy Self-Generated) will decrease because benefits payable by the retirement system to the retirees returning to active employment on a part-time basis or with a fire department participating in FRS will be suspended.
2. Expenditures from Local Funds will decrease because suspension of benefits will reduce employer contribution requirements. The decrease in expenditures will be offset to some extent by increases in employer contribution requirements attributable to an increase in the total payroll. However, this increase will be negligible. The net effect will be a decrease in expenditures from Local Funds.

Revenues:

- Revenue to FRS (Agy Self-Generated) will increase to the extent that rehired retirees employed on a full-time basis will contribute to FRS. The employer of such re-hired retiree will also make contributions to FRS, but the increase is expected to be negligible.

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 adopted 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 25 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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