


**2017 REGULAR SESSION
ACTUARIAL NOTE HB 36**

<p>House Bill 36 HLS 17RS-539 Original</p> <p>Author: Representative Sam Jones Date: April 4, 2017 LLA Note HB 36.01</p> <p>Organizations Affected: Municipal Employees' Retirement System of Louisiana</p> <p>OR INCREASE APV</p>	<p>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.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/MUNICIPAL EMP: Provides relative to the reemployment of retirees of the Municipal Employees' Retirement System of La.

Cost Summary:

The estimated actuarial and fiscal impact of HB 36 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the *actuarial present value of future benefit payments*. 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 *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.

Actuarial Costs Pertaining to:	Actuarial Cost	
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		Increase
	Fiscal Costs	
Five Year Fiscal Cost Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Other Post-Employment Benefits	0	0
Other Government Entities	<u>0</u>	<u>0</u>
Total	Increase	Increase

Bill Information

Current Law

Under current law, if a retiree receiving a normal retirement benefit from the Municipal Employees' Retirement System (MERS) is rehired by an employer participating as a sponsor of MERS, the combination of the retiree's monthly retirement benefit and his monthly earnings cannot exceed his monthly average compensation prior to retirement. If they do, his monthly retirement benefit is reduced as necessary so the total does not exceed his final monthly average compensation.

Proposed Law

HB 36 makes an exception for retired members receiving normal retirement who are elected to office and, as a condition of filling the elected position, become employed by a covered employer. The retirement benefits for such rehired members shall continue without being limited due to monthly earnings.

Implications of the Proposed Changes

HB 36 will allow retired members of MERS who are elected to office, and return to work as a condition of filling the elected position, to continue to collect full retirement benefits along with monthly earnings, without imposing a limit on the combined amount.

Neither current law nor the proposed change allows a rehired retired member to become an active member of the System.

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I. ACTUARIAL ANALYSIS SECTION

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

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

The actuarial cost of HB 36 associated with the retirement system is estimated to be a small increase. Our analysis is summarized below.

The present value of future benefit payments may increase slightly because pension benefits for retired members of MERS who are elected to office, and return to work as a condition of filling the elected position, will not be subject to reduction due to monthly earnings, based on preretirement earnings. Among the number of MERS retirees who are rehired with a covered employer in a covered position, it is estimated to be even fewer that are also elected to office and, as a condition of filling the elected position, become employed by a covered employer. Therefore, while there will be some amount of increase in future benefits due to this proposed bill, it is estimated to be a small increase.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 36 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers generally remains the same regardless of the amount of retirement benefits paid by MERS a retiree.

3. Other Government Entities

The actuarial cost of HB 36 associated with government entities other than those identified in HB 36, is estimated to be \$0. Our analysis is summarized in Section II; Subsection C.

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

Unless indicated otherwise, the actuarial note for HB 36 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by 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.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in HB 36 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 costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 36 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.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

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Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

The effect that HB 36 will have on retirement related fiscal costs and revenues during the five year measurement period is shown in Table A and in Items 2 and 3 below.

2. Expenditures:

- a. MERS expenditures (Agy Self-Generated) for monthly benefit payments will increase for all retirees who are also elected officials. These expenditures are not expected to exceed \$100,000 a year.
- b. Expenditures of government entities (Local Funds) that sponsor MERS will increase to the extent the employer contribution rate increases to offset the cost of additional benefit payments.

3. Revenues:

- a. MERS revenues (Agy Self-Generated) will increase to the extent that employer contribution rates are increased to fund the cost of the additional benefit payments.

**B. Estimated Fiscal Impact – OPEB
(Prepared by LLA)**

1. Narrative

Table B shows the estimated fiscal impact of HB 36 on costs associated with OPEB and the government entities that sponsor these benefits. Fiscal costs in Table B include administrative costs associated with the government entity sponsoring the OPEB program. 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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

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**C. Estimated Fiscal Impact – Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Mike Battle, Audit Manager for the LLA)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of HB 36 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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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 effect that HB 36 will have on fiscal costs and revenues for other governmental entities during the five year measurement period is shown in Table C and in Items 2 and 3 below.

2. Expenditures:

There is no anticipated indirect material effect on the expenditures of individual municipalities as a result of this measure. The bill provides that if a retired member receiving normal retirement benefits becomes reemployed in an elected position, his retirement benefit shall not be reduced, regardless of the amount of his monthly earnings during his time as an elected official. Based on information from the Municipal Employees’ Retirement System, there would be no fiscal impact on individual municipalities because they will be paying the same salary to the elected officials as they have been paying to previously elected officials (regardless of this bill). A Louisiana Municipal Association representative also indicated that this measure would result in no indirect material fiscal impact to the individual municipalities.

3. Revenues:

There is no anticipated indirect material effect on the revenues of individual municipalities as a result of this measure. The bill provides that if a retired member receiving normal retirement benefits becomes reemployed in an elected position, his retirement benefit shall not be reduced, regardless of the amount of his monthly earnings during his time as an elected official and, therefore, this bill will have no fiscal impact on revenues of municipalities.

**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)**

1. Narrative

Table D shows the estimated fiscal impact of HB 36 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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

Credentials of the Signatory Staff:

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.

Mike Battle, Audit Manager for the Louisiana Legislative Auditor has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

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

HB 36 contains a retirement system benefit provision having an actuarial cost.

A retired member of MERS who is elected to office will receive more in benefits under HB 36 than he would have without HB 36.

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 2017 regular session.

Senate

House

13.5.1 Applies to Senate or House Instruments.
If an annual fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Senate Finance

6.8F Applies to Senate or House Instruments.
If an annual General Fund fiscal cost \geq \$100,000, then the bill is dual referred to:
Dual Referral to Appropriations

13.5.2 Applies to Senate or House Instruments.
If an annual tax or fee change \geq \$500,000, then the bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

6.8G Applies to Senate Instruments only.
If a net fee decrease occurs or if an increase in annual fees and taxes \geq \$500,000, then the bill is dual referred to:
Dual Referral: Ways and Means