


**2015 REGULAR SESSION
ACTUARIAL NOTE HB 40**

<p>House Bill 40 HLS 15RS-540 Original</p> <p>Author: Representative Randal L. Gaines Date: April 29, 2015</p> <p>LLA Note HB 40.01</p> <p>Organizations Affected: Statewide Retirement Systems</p> <p>OR INCREASE 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 40 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 CREDIT: Authorizes the purchase of military service credit for vesting purposes in statewide retirement systems.

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	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 to:</u>	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	Increase
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 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	2015-16	2016-17	2017-18	2018-19	2019-20	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	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

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Bill Information:

Current Law

Current law establishes guidelines for members of the statewide retirement systems relative to the purchase of credit for military service.

The following are considered statewide retirement systems:

1. Louisiana Assessors' Retirement Fund (ASSR)
2. Clerks of Court Retirement and Relief Fund (CCRS)
3. District Attorneys' Retirement System (DARS)
4. Firefighters' Retirement System (FRS)
5. Municipal Employees' Retirement System (MERS)
6. Municipal Police Employees' Retirement System (MPERS)
7. Parochial Employees' Retirement System (PERS)
8. Registrars of Voters Employees' Retirement System (RVRS)
9. Sheriffs' Pension and Relief Fund (SPRF)

Current law contains the following rules regarding the use of military service credits.

1. A member may purchase up to 4 years of military credit.
2. Military service may be used to determine eligibility for normal retirement benefits.
3. Military service may *not* be used to determine eligibility for disability and survivor benefits.
4. Military service may *not* be used to satisfy eligibility requirements for any retirement criteria based on 20 years of service at any age or based on 20 years of service at age 50.
5. Military service may *not* be used to satisfy eligibility requirements for any retirement criteria based on less than 20 years of service.
6. For items 3, 4, and 5, military service credits and the cost of purchasing such credits may not be calculated until a member has at least 20 years of service.

These rules apply to the following retirement systems that provide unreduced benefits at any age with 20 or more years of service or at age 50 with 20 years of service. – FRS and MPERS. These rules also apply to the rest of the statewide retirement systems, which allow for actuarially reduced benefits with 20 years of service.

Proposed Law

HB 40 authorizes members of the statewide retirement systems to purchase military service credit at any time, regardless of the number of years of service credit the member has in the system, and use such service credit for retirement eligibility.

Implications of the Proposed Changes

HB 40 will allow military service to be used for the purpose of satisfying service requirements for regular (unreduced) and early (reduced) retirement.

Cost Analysis:

Analysis of Actuarial Costs

HB 40 contains benefit provisions having an actuarial cost.

Retirement Systems

Under current law, members of the statewide retirement systems may purchase military service that can be used for retirement eligibility as long as it is not used to meet the minimum eligibility requirement for any regular retirement of 20 years or less.

HB 40 allows members of statewide retirement systems to purchase military service credit and use it for retirement eligibility.

Under HB 40, a member with 16 years of service with a statewide retirement system may purchase 4 years of military service and then retire immediately with a benefit based on 20 years of service. Under current law, he would have had to work four additional years to obtain 20 years of service. He could then purchase 4 years of military, retire, and have his benefit based on 24 years of service credit.

As a result of HB 40, a member who purchases military service credit will be able to retire four years earlier than he would have otherwise.

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Because the member must pay the full actuarial cost associated with the purchase of such military service, there is no actuarial cost to the system except for costs associated with adverse selection.

Other Post-Employment Benefits

There are potential actuarial costs associated with HB 40 for post-employment benefits other than pensions since the member of such system may retire earlier than expected. HB 40 will induce members of statewide retirement system to retire earlier than they would have otherwise. If the employer pays a portion of the retiree health insurance premium, the annual cost for post-employment benefits other than pensions will increase.

Analysis of Fiscal Costs

Statewide retirement system members may purchase military service credit under HB 40 and become eligible to retire earlier than expected. Benefit payments to such member will increase on account of additional service credits and earlier eligibility to normal retirement. HB 40 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from statewide retirement systems (Agy Self-Generated) will increase to pay pension benefits that would not otherwise have been paid due to earlier retirement than expected.
2. Expenditures from Local Funds will increase because employer contribution requirements will increase due to the cost of adverse selection.
3. Expenditures from Local Funds will increase to the extent that employers pay a portion of annual premiums for retiree health insurance.

Revenues:

1. Revenues for statewide retirement systems (Agy Self-Generated) will increase to the extent that military service is purchased and members deposit funds with the systems to pay for such service credits.
2. Revenues for statewide retirement systems (Agy Self-Generated) will increase to the extent that employer contributions increase due to adverse selection.

It cannot be determined when a statewide retirement system member or members will purchase military service. However, it is quite likely that the sum of pension benefits being paid that would not have otherwise been paid will exceed \$100,000 in the three years immediately following the 2015 legislative session.

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.

Actuarial Caveat

There is nothing in HB 40 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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:

<u>Senate</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1: Annual Fiscal Cost \geq \$100,000	<input type="checkbox"/> 6.8(F)(1): Annual Fiscal Cost \geq \$100,000
<input type="checkbox"/> 13.5.2: Annual Tax or Fee Change \geq \$500,000	<input type="checkbox"/> 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
	<input type="checkbox"/> 6.8(G): Annual Tax or Fee Change \geq \$500,000