


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 40**

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| <p>House Bill 40 HLS 13RS-277 Original</p> <p>Author: Representative Jeffery J. Arnold Date: April 8, 2013</p> <p>LLA Note HB 40.01</p> <p>Organizations Affected: Firefighters' Pension and Relief Fund in the City of New Orleans</p> <p>OR INCREASE FC LF EX</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/LOCAL: Provides for the rate of judicial interest for delinquent payments owed to the Firefighters' Pension and Relief Fund in the City of New Orleans

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.

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|--|----------|
| Actuarial Cost/(Savings) to Retirement Systems and OGB | \$0 |
| 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.

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

Estimated Fiscal Impact:

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

| EXPENDITURES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 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 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 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

The Firefighters' Pension and Relief Fund in the City of New Orleans (NOFF) is not an actuarially funded retirement system. An actuarial valuation is prepared annually, but it is not the basis for employer contributions to the retirement system. Instead, NOFF is funded through the following:

1. 1% of all the revenues derived from all licenses issued by the city, except drivers and chauffeurs licenses.
2. An annual amount appropriated by the city that is at least equal to 5% of the money appropriated by city for the operation and maintenance of the fire department.
3. Employee contributions equal to 6% of pay until an employee has 20 years of service. Members with 20 or more years of service do not contribute.
4. All forfeitures and fines imposed by the superintendent of the fire department upon any member of the fire department by way of discipline.
5. All fines imposed by the courts for infractions of city ordinances, relative to fire escapes, fire wells, hydrants, open hatches, oils, gun powder, right-of-way of the fire apparatus through the streets, and all other laws relative to the fire department.
6. All sales of condemned apparatus and other personal property in use by the fire department.
7. All rewards in money, fees, gifts, and emoluments that may be paid or given on the account of extraordinary services by the fire department, except when allowed to be retained by a firefighter.
8. If applicable, an amount appropriated by the council of the city of New Orleans that is sufficient to pay the benefits to which members of the system are entitled.

Proposed Law

HB 40 provides the following:

1. If an amount owed to NOFF under one of the provisions identified above under current law is recovered through the courts, the delinquent political subdivision shall be liable for the debt as well as interest calculated at the greater of the following:
 - a. The system's actuarial valuation rate.
 - b. An amount equal to the market rate of return on the system's investment portfolio.
2. If the city of New Orleans or a political subdivision becomes delinquent in making designated payment to NOFF required under current law, NOFF may certify such delinquency to the state treasurer. The state treasurer will then pay the delinquent amount to NOFF and deduct the amount paid from amounts otherwise payable by the state to the city of New Orleans or other applicable political subdivisions.

Implications of the Proposed Changes

HB 40 will ensure that NOFF will receive designated payments under current law in a timely manner.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 40 has no effect on the actuarial present value of future benefit payments (APV). No benefit provisions are being changed by HB 40.

HB 40 has no effect on the accrued liability of the retirement system. No benefit provisions are being changed by HB 40.

HB 40 will affect the unfunded accrued liability of NOFF to the extent that there are outstanding amounts owed to the retirement system by the city of New Orleans or other political subdivisions. HB 40 will enable NOFF to collect delinquent payments.

HB 40 will have no effect on employer contribution requirements because NOFF is not actuarially funded.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 40 pertaining to post-employment benefits other than pensions.

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Analysis of Fiscal Costs

HB 40 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will not change. Amounts the General Fund will pay directly to NOFF will be deducted from amounts that otherwise would be paid to the city of New Orleans or other political subdivisions.
2. Expenditures from Local Funds will increase to the extent that interest will be charged on delinquent amounts and required payments to NOFF will be made earlier than they would have otherwise.

Revenues:

- Revenues to NOFF (Agy Self-Generated) will increase to the extent that required appropriations will be paid earlier and interest will be charged on delinquent amounts.

It is likely that local expenditures will increase more than \$100,000 in any given year during the fiscal measurement period.

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 \geq \$100,000 Annual Fiscal Cost

13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

6.8(F)(1) \geq \$500,000 Annual Fiscal Cost

6.8(G) \geq \$500,000 Annual Tax or Fee Change