


**2019 REGULAR SESSION
ACTUARIAL NOTE HB 612**

<p>House Bill 612 HLS 19RS-1018 (Substitute for House Bill 16) Engrossed</p> <p>Author: Representative Abraham Date: May 2, 2019 LLA Note HB 612. 01</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 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> <p style="text-align: center;"></p> <p>James J. Rizzo, ASA, MAAA Senior Consultant & Actuary Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor</p>
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Bill Header: RETIREMENT/FIREFIGHTERS: Requires a physical exam that meets or exceeds national standards for purposes of membership in the Firefighters' Retirement System

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 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 *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		Decrease
Other Post-employment Benefits (OPEB)		0
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	Expenditures	Revenues
The Retirement Systems	Decrease	Decrease
Other Post-employment Benefits	0	0
Other Government Entities	Increase	0
Total	Decrease	Decrease

Bill Information

Current Law

Current law requires any person who becomes an employee of a fire department to become a member of the Firefighter's Retirement System (FRS) as a condition of his employment.

Current law also provides for age-related exceptions to the membership requirement (a new member must be at least age 18 but not age 50 or older).

Proposed Law

HB 612 retains current law and establishes the National Fire Protection Association code 1582, Standard on Comprehensive Occupational Medical Program for Fire Departments, as the governing standard of physical evaluations required for membership in the system and provides for a written employer certification of the employee compliance with these requirements.

HB 612 also authorizes the FRS's board of trustees to waive these requirements for any employee or employer.

Implications of the Proposed Changes

An employee of a fire department will be required to satisfactorily complete a physical examination that meets or exceeds a uniform national standard for membership in FRS. The FRS' board of trustees will also be authorized to waive that requirement for any employee or employer.

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I. ACTUARIAL ANALYSIS SECTION

**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 expected to decrease. The actuary's analysis is summarized below.

HB 612 provides for an employee of a fire department to comply with the National Fire Protection Association code 1582, Standard on Comprehensive Occupational Medical Program for Fire Departments, before becoming a member of FRS. A consistent standard may be more successful in identifying medical issues that pre-date system membership. Since disability benefits are not payable as a result of a condition that existed prior to membership in the system, HB 612 could be expected to reduce future disability benefit costs.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, cannot be determined. It is therefore recorded as zero in the Actuarial Note Tables. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance subsidies provided to retirees cannot be determined without detailed information concerning each participating employer's own OPEB programs, if any. It is not known whether the OPEB programs of participating employers provide any subsidies (implicit or direct) to disabled firefighter-members; thus, it is not known if this proposed legislation would reduce costs and liabilities in the same manner that it is thought to decrease retirement system costs as described above.

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

A detailed review of the actuarial data, methods or assumptions applicable to this retirement system was not made or required for the preparation of this Actuarial Note.

**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 ANALYSIS SECTION

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of HB 612 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.

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Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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	0	0	0	0	0
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

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 from FRS (Agy Self-Generated) are expected to decrease because fewer benefits are expected to be paid since fewer disability cases are expected to be granted. These effects may not be felt until the 2020-21 fiscal year.
- b. Expenditures from the Local Funds are expected to decrease because fewer benefits are expected to be paid since fewer disability cases are expected to be granted. As these effects begin to show in the valuation census data and experience, employer contribution requirements will decrease. These effects may not be felt until the 2020-21 fiscal year.

3. Revenues:

FRS revenues are expected to decrease since the employer contribution requirement will decrease.

**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	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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 OPEB related fiscal costs and revenues during the five year measurement period.

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2. Expenditures:

No measurable effects on the State General Fund or the FRS. For the reasons stated in the Actuarial Analysis Section I.A.2, the OPEB Fiscal Cost Expenditures cannot be determined and are, therefore, recorded as zero in the Actuarial Note Tables.

3. Revenues:

No measurable effects on the State General Fund or the FRS. For the reasons stated in the Actuarial Analysis Section I.A.2, the OPEB Fiscal Cost Revenues cannot be determined and are, therefore, recorded as zero in the Actuarial Note Tables.

**C. Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)
(Prepared by Bradley Cryer, Director of Local Government Services, LLA)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities (other than the retirement systems or OPEB). Table C shows the estimated fiscal impact of the proposed legislation 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	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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 other government entities during the five year measurement period.

2. Expenditures:

Local fund expenditures will increase for those fire departments paying for physical exams that do not currently meet or exceed national standards, as required by the proposed legislation.

3. Revenues:

No measurable effects.

**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 the proposed legislation 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	2019-20	2020-21	2021-22	2022-23	2023-24	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	Increase	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Increase	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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	0	0	0	0	0
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

Credentials of the Signatory Staff:

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

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

HB 612 contains a retirement system benefit provision having an actuarial cost.

No member of the Firefighters' Retirement System will receive a larger benefit with the enactment of HB 612 than what he would have received without HB 612.

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 2019 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