2013 REGULAR SESSION
ACTUARIAL NOTE SB 259

Senate Bill 259 SLS 13RS-1148 **Engrossed** **Author: Senator Barrow Peacock** **Date: May 6, 2013** **LLA Note SB 259.02** **Organizations Affected:** **Firefighters Retirement System** **EG DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 259 provides compliance with the requirements of R.S. 24:521.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> FIREFIGHTERS RETIREMENT. Provides benefits for members hired on or after January 1, 2014. (7/1/13)

<u>Cost Summary:</u>

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the ***unfunded actuarial accrued liability***. A cost is denoted by “Increase” or a positive number. Savings are denoted by “Decrease” or a negative number.

Actuarial Cost/(Savings) to Retirement Systems and OGB	Decrease
Total Five Year Fiscal Cost	
Expenditures	$(4,200,000)
Revenues	$(4,200,000)

<u>Estimated Actuarial Impact:</u>

The chart below shows the estimated change in the ***unfunded actuarial accrued liability***, 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/(Savings) to:</u>	**<u>Change in the Unfunded Accrued Liability</u>**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	$ 0
Total	Decrease

<u>Estimated Fiscal Impact:</u>

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	0	(420,000)	(840,000)	(1,260,000)	(1,680,000)	(4,200,000)
Annual Total	$ 0	$ (420,000)	$ (840,000)	$ (1,260,000)	$ (1,680,000)	$ (4,200,000)

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	0	(420,000)	(840,000)	(1,260,000)	(1,680,000)	(4,200,000)
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	$ (420,000)	$ (840,000)	$ (1,260,000)	$ (1,680,000)	$ (4,200,000)

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Bill Information:

Current Law

Current law provides for retirement eligibility, a 3 year final average compensation (FAC) period, and 3 1/3% accrual rate for all members of Firefighters Retirement System (FRS).

Proposed Law

SB 259 changes the retirement eligibility, the FAC computation period, and the accrual rate for employees of FRS hired on or after January 1, 2014. These changes are summarized below.

	For Members of FRS Hired on or after January 1, 2014	
	Current Provisions	**Provisions under SB 259**
Retirement Eligibility	• 25 or more years of service at any age • 20 or more years of service at age 50 • 12 or more years of service at age 55	• 20 or more years of service at age 50 • 12 or more years of service at age 55
FAC	3 years	5 years
Anti-spiking cap	15%	15%
Accrual Rate	3 1/3%	• 3 1/3%, only if a member has earned 30 or more years of service • 3%, otherwise

The calculation of additional benefits earned for continued employment after DROP will change for members first employed on or after January 1, 2014. This change is summarized below.

1. If a member's additional service period is less than his FAC period, the additional benefit shall be calculated based on the FAC used to calculate his original benefit.

2. If a member's additional service period is at least his FAC period, the additional benefit shall be calculated based on the FAC during the additional service.

Implications of the Proposed Changes

SB 259 creates a new tier of benefits in FRS for members hired on or after January 1, 2014.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 259 has no effect on any current member of FRS. The actuarial present value of future benefit payments for existing members will not change. SB 259 has no effect on accrued liabilities because it applies to members first employed in the future.

SB 259 provides for a longer FAC period, lower benefit accrual rates and later retirement ages for members first employed on or after January 1, 2014. As a result, the present value of future benefit payments for future members will decrease. Future normal costs and future employer contribution requirements will also decrease. However, savings from SB 259 will not begin to be recognized until new members first employed on or after January 1, 2014 begin to replace currently active members.

G. S. Curran & Company, LTD has estimated the effect of SB 259 on various actuarial cost measures. The results of its analysis are summarized below.

	Reduction in Normal Cost	
Change in	**Long Term over 25 or 30 years**	**Short Term within 5 years**
FAC Period from 3 years to 5 years	1.26%	0.32%
Accrual Rate from 3 1/3% to 3% with 3 1/3% retroactive for members with 30 or more years of service	2.05%	0.53%
Retirement eligibility by Eliminating 25 & out provisions	0.51%	0.19%
Total	3.82%	1.04%

Other Post Retirement Benefits

There are no actuarial costs associated with SB 259 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 259 will have the following effect on fiscal costs.

Expenditures:

1. Annual expenditures from FRS (Agy Self-Generated) will decrease because benefits for new members will decrease. However, this decrease is expected to be negligible during the 5 year measurement period because the only benefit likely to be paid relative to new members is a refund of employee contributions upon termination of employment and SB 259 has no effect on the calculation of this benefit.

2. Annual expenditures from Local Funds will decrease because employer contribution requirements will decrease. The expected decrease is shown below:

Fiscal Year Ending	Estimated Decrease in Employer Contributions
2014	$ 0
2015	420,000
2016	840,000
2017	1,260,000
2018	1,680,000

Revenues:

- FRS revenues (Agy Self-Generated) will decrease to the extent that employer contribution requirements decrease.

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 ≥ $100,000 Annual Fiscal Cost

☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change

House

☐ 6.8(F) ≥ $500,000 Annual Fiscal Cost

☐ 6.8(G ≥ $500,000 Annual Tax or Fee Change