OFFICE OF LEGISLATIVE AUDITOR
2025 REGULAR SESSION
ACTUARIAL NOTE

House Bill 28 HLS 25RS-285	**Date: April 9, 2025**
Original	**Organizations Affected: FRS**
Author: Kerner	
LLA Note HB 28.01	**OR INCREASE APV**

Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to the Firefighters' Retirement System

Purpose of Bill: Proposed law expands the eligibility criteria and benefit duration of survivor benefits for children with disabilities under the Firefighters' Retirement System (FRS).

Summary of Impact[1]: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

Proposed law is expected to immediately increase the ***net actuarial present value of expected future benefits and administrative expenses*** incurred by the retirement systems. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation can be found in Section II: Fiscal Impact on Retirement Systems.

Five Year Net Fiscal Costs Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Local Government Entities	Increase	0
State Government Entities	0	0
Total	**Increase**	**Increase**

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	Expenditures	Revenues
Local Government Entities	$ 0	$ 0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

[1] This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "**Information Pertaining to La. Const. Art. X, §29(F)**").

This Note has been prepared by the Actuary for the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

2025 REGULAR SESSION
ACTUARIAL NOTE HB 28

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

Proposed law makes two distinct changes.

1. Under present law, surviving children are directly eligible for benefits under 2 different scenarios:
    a. Minor children (under the age of 18) at the time of death of an active contributing member or disability retiree receive survivor benefits until the earlier of:
        i. marriage,
        ii. age 18. However, if enrolled on a full-time basis in an institute of higher education, then the earlier of:
            1. Age 22
            2. Four years past high school graduation

    b. Children of an active contributing member, disability retiree, or regular retiree are eligible for lifetime benefits if such child,
        i. has a total physical disability or intellectual disability,
        ii. had such disability at the time of the participant's death, and
        iii. is dependent upon the surviving spouse or other legal guardian.

    Proposed law removes item b.iii from the qualification requirements for lifetime payments and changes the timing of the determination of the disability to be "at the time of death of the member or of the retirement of the retiree."

2. Under present law, a spouse receiving survivor benefits may assign a portion of their benefit to the deceased participant's dependent minor child(ren) or child(ren) with a permanent mental or physical disability and elect to receive an actuarially reduced benefit for themselves. The duration of payment to minor children is the same as outlined above. The duration of payment to children with a permanent mental or physical disability is for life or until the disabling condition is no longer medically determined to be permanent.

    Proposed law removes the condition ending payments when a disabling condition is no longer permanent, changing the payments to the lifetime of the designated child.

Theoretically, Item 2 outlined above is "cost neutral" because the purpose of an actuarial equivalent calculation is to make the value to the recipients, regardless of who and how many, and the cost to the retirement system "the same". In practice, providing additional options will subject the system to anti-selection risk, resulting in some additional risk to the system. However, experience shows us that not all participants make financially optimal choices so the ultimate impact is not expected to be material.

On the other hand, Item 1 could potentially expose the retirement system to significant increases in total benefit payments over the long term, for several reasons.

The amount of survivor benefits paid under this provision is not a set "value" that is split between surviving children on an actuarial basis. The amount paid is a defined amount, and the only restrictions are such that the total annual payment amount cannot exceed specified thresholds, accounting for number of children receiving a benefit and the existence of a surviving spouse. In addition, the payment amount is determined without regard to any optional form of payment (including survivor options) elected by a retiree currently in pay status.

The costs associated with these "additional" benefits are contained using various restrictions, depending on who is receiving payment. For minor children, the costs are primarily contained by making the benefits temporary, as described above, and limiting it only to surviving children of active participants and disability retirees (i.e. not regular retirees). For disabled surviving children, the primary restriction containing costs is most likely a function of the financial dependency requirement (Item 1.b.iii above) because this prevents financially independent adults, regardless of disability, from receiving lifetime benefits from the retirement system.

Removing the financial dependency requirement has the potential to significantly expand who could qualify for lifetime benefits under item 1.b., in part, because the current definition of disability is not well defined in statute. For example, in some places the phrase "mental disability" is used while in other places "intellectual disability" is used, and neither is specifically defined in statute. The National Institute of Mental Health[2] estimates that in 2022, 23.1% of the U.S. adult population (or 59.3 million people) was living with a mental illness of some kind (AMI), while 6.0% of the U.S adult population (or 15.4 million people) had a Severe Mental Illness (SMI); and the prevalence of both (AMI and SMI) is higher in young adults aged 18-25 years (36.2% and 11.6%, respectively) than it is in older cohorts. In addition to having more children qualify for lifetime benefits, this could lead to an increase in administrative costs because retirees with children are significantly more likely to request a medical determination at retirement, which increases medical and record keeping costs for the system.

Changing the timing of the determination of the disability from "has a total physical disability or an intellectual disability and had such disability at the time of death of the member or retiree" to "has a total physical or an intellectual disability at the time of death of the member or retirement of the retiree," could be excluding surviving children who are eligible for a benefit under the existing statute. Under present law, it is clear the disability must exist at the time of death of the participant. One interpretation of the change in language is that for surviving children of a retiree, the disability must exist at the retirement of the retiree but would specifically exclude a surviving child who has a disability at the retiree's death that they did not have at the time of retirement. To the extent this language change is meant to permit the disability determination either at retirement or death of the retiree, then the number of surviving adult children eligible for the benefit will only increase, increasing anticipated costs.

We do not have sufficient information to estimate the overall impact of the changes. However, the changes appear to significantly increase the number of surviving children who could be eligible for lifetime survivor benefits, therefore increasing the net actuarial present value of expected future benefits and administrative expenses incurred by the retirement system. As a result, it is likely that this will lead to an increase in future employer contribution rates.

[2] Mental Illness. (n.d.). National Institute of Mental Health (NIMH). https://www.nimh.nih.gov/health/statistics/mental-illness

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. 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: Retirement System Fiscal Cost

Expenditures	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**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	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**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	**Increase**	**Increase**	**Increase**	**Increase**	**Increase**	**Increase**

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

The proposed legislation is expected to have the following effects on retirement related fiscal costs and revenues during the five-year measurement period.

1. Expenditures:

   a. Agy Self-Generated expenditures are expected to increase for the following reasons:
      i. Survivor benefit payments are expected to increase because more children will be eligible for benefits.
      ii. The retirement system expects this change to increase the number of disabled child applicants, which
         1. may require additional staff, with initial expected payroll costs of approximately $80,000, and
         2. add administrative expenses due to increased physician fees.

   b. Local Funds will see increased expenditures due to higher contribution rates that are a result of the expanded pool of beneficiaries and administrative expenses.

2. Revenues:

   a. Changes in retirement contributions identified as changes in Local Funds expenditures have corresponding changes in Agy Self-Generated revenues.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Section II.

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Section II.

N/A - This bill only impacts local government, and therefore, has no state impact. The LFO does not review local government bills.

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (PRSAC). The assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

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

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.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits at rates that differ from what was assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an actuarial note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an actuarial note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

☒ This bill contains a retirement system benefit provision having an actuarial cost.

Some members of a retirement system could receive a larger benefit with the enactment of this bill than what they would have received without this bill.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2025 Regular Session.

Senate

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

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

House

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

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