LOUISIANA LEGISLATIVE AUDITOR

OFFICE OF LEGISLATIVE AUDITOR
2025 REGULAR SESSION
ACTUARIAL NOTE

House Bill 18 HLS 25RS-263	**Date: April 25, 2025**
Engrossed	**Organizations Affected: FRS**
Author: Kerner	
LLA Note HB 18.02	**EG +$5,714,000 FC SG EX**

<u>Bill Header:</u> RETIREMENT/FIREFIGHTERS: Provides relative to the funding of supplemental benefits for members of the Firefighters' Retirement System

<u>Purpose of Bill:</u> Proposed law 1) removes the restriction preventing the Firefighters' Retirement System from using Funding Deposit Account funds to pay for cost-of-living increases and 2) provides for a one-time supplemental payment to certain retirees and beneficiaries of $2,000.

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

Proposed law is <u>not expected to have an immediate or long-term impact</u> on the ***net actuarial present value of expected future benefits and administrative expenses*** incurred by the retirement system. A more detailed explanation can be found in Section I: <u>Actuarial Impact on Retirement Systems</u>.

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: <u>Fiscal Impact on Retirement Systems</u>.

Five Year Net Fiscal Costs Pertaining to:	**<u>Expenditures</u>**	**<u>Revenues</u>**
The Retirement Systems	$ 5,714,000	$ 0
Local Government Entities	0	0
State Government Entities	0	0
Total	**$ 5,714,000**	**$ 0**

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: <u>Fiscal Impact on Local Government Entities</u> and Section IV: <u>Fiscal Impact on State Government Entities</u>.

Five Year Net Fiscal Costs Pertaining to:	**<u>Expenditures</u>**	**<u>Revenues</u>**
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 "**<u>Information Pertaining to La. Const. Art. X, §29(F)</u>**").

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 18

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:

1. Removes the restriction preventing the Firefighters' Retirement System (FRS) from using Funding Deposit Account (FDA) funds to pay for cost-of-living increases (COLAs).

   The FRS board is permitted to set the net direct employer contribution rate higher than the minimum recommended rate under current law. All associated surplus funds collected are used to fund the FDA. Current law specifies FRS may use FDA funds to reduce the unfunded accrued liability but may not use them to provide cost-of-living increases. Therefore, FRS is not currently permitted to prefund COLAs so any COLA provided by the retirement system must necessarily be funded by increasing future employer contributions. All other state-wide retirement systems are permitted to use their FDA funds to provide COLAs. Proposed law removes this restriction for FRS.

   Proposed law does not require the FRS board to do anything, but instead removes an existing restriction. For fiscal years 2022 through 2026, the FRS Board has elected to set the employer contribution rate at the maximum permissible amount above the minimum recommended rate.

2. Provides for a one-time supplemental payment to certain retirees and beneficiaries of $2,000.

   Proposed law provides for a one-time supplemental payment of $2,000 to retirees who have received a benefit for at least one year, and nonretiree beneficiaries where the retiree and beneficiary together have received a benefit for at least one year, as of June 30, 2025. Based on the June 30, 2024 Actuarial Valuation, there are a maximum of 2,857 retirees and nonretiree beneficiaries who could be eligible for this payment, for a maximum cost of $5,714,000.

   Proposed law stipulates that, to the extent possible, this payment will be funded with the existing balance of the Funding Deposit Account (FDA), and any excess will be funded via an increase in employer contributions. As of June 30, 2024, the FDA has a balance of $6,033,757. Given this is a one-time payment and there are sufficient funds in the FDA to cover the maximum possible amount, there would not be an impact to the accrued liability or future employer contributions.

Proposed law is not expected to have an immediate impact on the net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems. Over the long-term, proposed law will permit the FRS board to choose to prefund future COLAs rather than pay for them after they are already granted, which is generally preferred from an actuarial perspective.

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	5,714,000	0	0	0	0	5,714,000
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	**$ 5,714,000**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 5,714,000**

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	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**

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: The plan is expected to pay a $2,000 one-time supplemental payment per eligible retiree and nonretiree beneficiary no later than August 1, 2025, for a maximum payment of $5,714,000

2. Revenues: The total cost of the payment will be funded with the existing balance of the FDA. No additional contributions will be required from employers or members.

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 Table A.

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 Table A.

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. 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.

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 would 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