


**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 56**

<p><b>House Bill 56 HLS 16RS-115</b> Enrolled</p> <p><b>Author: Representative Walter J. Leger III</b> <b>Date: June 6, 2016</b> <b>LLA Note HB 56.04</b></p> <p><b>Organizations Affected:</b> <b>Firefighters' Pension and Relief Fund in the City of New Orleans</b></p> <p><b>EN DECREASE APV</b></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 56 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/LOCAL: Provides relative to retirement eligibility and benefits for new hires in the Firefighters' Pension and Relief Fund in the city of New Orleans.

**Cost Summary:**

The estimated actuarial and fiscal impact of the proposed legislation 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.

Actuarial Cost to Retirement Systems	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

**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.

<b><u>Actuarial Cost to:</u></b>	<b><u>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

**Estimated Fiscal Impact:**

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

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>5 Year Total</b>
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

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**Bill Information:**

**Current Law**

Current law establishes the Firefighters' Pension and Relief Fund in the City of New Orleans (NOFF) for the benefit of individuals employed by the fire department in the City of New Orleans who are actively engaged in extinguishing fires.

Under current law, a member of NOFF whose first employment makes him eligible to participate in the system on or after January 1, 2015 is eligible to receive a retirement benefit upon attaining age 52 with 12 or more years of creditable service. Such a member will accrue benefits at a rate of 2.75% for each year of service multiplied by his final average compensation.

A member who terminates employment with at least 12 years of service but before attainment of age 52 will be eligible to receive retirement benefits when he attains age 52.

**Proposed Law**

HB 56 creates a new tier of retirement benefits for members of NOFF who are first employed on or after August 15, 2016.

	<b>For Members of NOFF Hired on or after August 15, 2016</b>	
	<b>Current Provisions</b>	<b>Provisions under HB 56</b>
Normal Retirement Eligibility	Age 52 with 12 or more years of service.	Social Security retirement age, less 10 years, with 12 or more years of service.
Accrual Rate	2.75%	2.50%
Retirement Benefit	2.75% x years of service x final average compensation	2.50% x years of service x final average compensation
Termination of Employment	A member who is less than age 52 and who terminates employment with 12 or more years of service may retire when he attains age 52.	A member who is less than age 57 and who terminates employment with 12 or more years of service may retire when he attains age 57.
Death after Termination of Employment	A survivor of a member who 1. Dies after terminating employment 2. Has 12 or more years of service 3. Has not yet attained age 52  will be entitled to a survivor benefit based on an accrual rate of 2.75% per year of service.	A survivor of a member who 1. Dies after terminating employment 2. Has 12 or more years of service 3. Has not yet attained age 57  will be entitled to a survivor benefit based on an accrual rate of 2.50% per year of service.

**Implications of the Proposed Changes**

HB 56 creates a new tier of benefits for members of NOFF hired on or after August 15, 2016.

**Cost Analysis:**

**Analysis of Actuarial Costs**

HB 56 does not contain any benefit provisions having an actuarial cost.

**Retirement Systems**

HB 56 has no effect on current members of NOFF. The actuarial present value of future benefit payments for existing members will not change. HB 56 has no effect on accrued liabilities for existing members because it only applies to members first employed on or after August 15, 2016.

HB 56 provides for smaller benefit accrual rates, later retirement ages, and smaller death benefits for those who terminate employment without being eligible for immediate retirement. As a result, the present value of future benefit payments for members joining the system on or after August 15, 2016 will decrease. Future normal costs and future employer contribution requirements will also decrease. However, the effect of HB 56 on employer contribution requirements will be gradual. Initially, the difference in contribution requirements will be small. However, savings will increase over time as old members leave the system and are replaced with new members.

**Other Post-Employment Benefits**

Actuarial costs associated with post-employment benefits other than pensions are expected to decrease to the extent that the City of New Orleans provides such benefits to its firefighters. Because members will be retiring later under HB 56 than under current law, NOFF members will be entitled to these benefits for a shorter period of time and actuarial costs will decrease.

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**Analysis of Fiscal Costs**

HB 56 will have the following effect on fiscal costs.

Expenditures:

1. Benefit payments from NOFF (Agy Self-Generated) will not change during the 5-year measurement period. Benefit reductions for members hired on or after August 15, 2016 will not have any effect on distributions from the system until a new member has earned at least 12 years of service.
2. Expenditures from Local Funds will decrease because employer contribution requirements will decrease. This decrease will first occur for FYE 2018.

Revenues:

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

**Actuarial Data, Methods and Assumptions**

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report of the retirement system. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

**Actuarial Caveat**

There is nothing in HB 56 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

**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: Annual Fiscal Cost  $\geq$  \$100,000
- 13.5.2: Annual Tax or Fee Change  $\geq$  \$500,000

**House**

- 6.8(F)(1): Annual Fiscal Cost  $\geq$  \$100,000
- 6.8(F)(2): Annual Revenue Reduction  $\geq$  \$100,000
- 6.8(G): Annual Tax or Fee Change  $\geq$  \$500,000