2018 REGULAR SESSION
REVISED ACTUARIAL NOTE HB 26

House Bill 26 HLS 18RS-253 **Original** **Author: Representative Pearson** **Date: March 14, 2018** **LLA Note HB 26.01** **Organizations Affected:** **Municipal Employees' Retirement System of Louisiana** **OR INCREASE APV**	**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.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/MUNICIPAL EMP: Provides for participation by certain entities in the Municipal Employees' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 26 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the ***actuarial present value of future benefit payments***. 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 ***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.

Actuarial Costs Pertaining to:		**Actuarial Cost**
The Retirement Systems		Increase
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Employer Participation in MERS

Current law identifies a list of ten categories of government entities that qualify as employers allowed to participate in the Municipal Employees' Retirement System of Louisiana (MERS). Some of these categories are written to cover many employers. Others are written to cover a specific employer.

An employer that qualifies according to one of the defined categories, but is not participating in MERS, may elect to participate by submitting an “agreement for coverage” proposal to the MERS board of trustees. The MERS board must approve that employer’s proposed agreement if it is in conformity with the rules of the board and applicable state laws.

MERS Rules for Mayors

Mayors who were in office on June 15, 2004, who are over age 65, and who are receiving a retirement benefit from any source other than MERS may elect not to participate in MERS.

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Proposed Law

Employer Participation in MERS

HB 26 adds the following categories of employers that may participate in MERS.

1. Any tax board or commission of a municipality or parish that has entered into an agreement to participate in MERS.

2. The Firefighters' Pension and Relief Fund in the city of New Orleans (Note: MERS will cover the employees of this retirement system).

3. The Louisiana Uniform Local Sales Tax Board.

Employees of the Morehouse Sales and Use Tax Commission will become members of MERS effective January 1, 2018. (Note: HB 26 specifies the Morehouse Sales and Use Tax Commission. The actual employer is the Sabine Sales and Use Tax Commission.)

MERS Rules for Mayors

The roster of individuals who were mayors on June 15, 2004 (fourteen years ago) and are still alive is small or perhaps nonexistent. Nevertheless, any such mayor will be treated in the future as any other reemployed retiree. Furthermore, any person who has retired from any Louisiana public retirement system who are over 65 years of age shall not be required to participate in MERS even though their position would otherwise qualify them for participation.

Implication of the Proposed Changes

HB 26 will add certain participating employers to MERS prospectively. There will not be a past service cost associated with these new participating employers. However, normal costs will increase as new members earn service credits with MERS.

The repeal of the provisions pertaining to mayors eliminates provisions that are no longer effective. Removal of these provisions from the law will mitigate against these provisions being used as a precedent for similar treatment in the future.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to actuarial costs or savings associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

The actuarial cost of HB 26 associated with the MERS is expected to increase. Our analysis is summarized below.

a. Retirement benefits for the staff of Sabine Sales and Use Tax Commission will begin to accrue effective January 1, 2018. Retirement benefits for the staff of the Firefighters' Pension and Relief Fund of the City of New Orleans will begin to accrue effective upon the signature of the governor or the lapse of time for gubernatorial action.

b. Three employees of the Sabine Sales and Use Tax Commission and three employees of the Firefighters' Pension and Relief Fund of the City of New Orleans will become members of MERS.

c. No unfunded accrued liabilities will be created by the six new members. However, the dollar amount of employer normal cost will increase.

d. The employer normal cost percentage may increase or decrease depending upon the age and service characteristics of the six new members relative to active census of MERS as a whole. However, it is likely that the new members will cause the normal cost percentage for all active members to decrease because the total payroll is likely to increase proportionately more than the normal cost increase.

e. Nevertheless, the question that must be answered is: "Will the actuarial present value of future benefits increase". The answer is "Yes". Adding new members will increase service accruals which in turn will increase the actuarial present value of future benefits.

On the other hand, the actuarial present value of retirement system revenues will also increase. Each of the six new members (assuming they enter Plan A) will contribute 9.50% of their salary to MERS. In addition, their employers will contribute 26% of pay. MERS currently does not receive any contributions on behalf of these members. A portion of the employer contribution rate pertains to net investment and actuarial losses accumulated in the past. The employer normal cost for the six new members does not include any adjustment for past investment and actuarial losses. Therefore, MERS will receive more in future contributions on behalf of the new members than what it is expected to pay out in benefits. At the end of the day, the actuarial present value of future revenues will exceed the actuarial present value of future benefits.

The point is that the actuarial present value of future benefits will increase as a result of HB 26. However the increase will be very small relative to the total. HB 26 will result in six new members; MERS currently has 4,937 active members.

The actuarial cost for the portion of HB 26 pertaining to mayor's participation in MERS is $0 or negligible. The list of persons who may be affected by HB 26 is either nonexistent or very small.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 26 associated with OPEB, including retiree health insurance premiums, is expected to be $0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to current members is not affected by adding employers to MERS. MERS does not provide post-employment benefits to its members. Such benefits are provided by local employers. Insurance premiums may increase, but such an increase will not be the result of the enactment of HB 26.

3. Other Government Entities

The actuarial cost or savings of HB 26 associated with government entities other than those identified in HB 26, is expected to be $0.

B. <u>Actuarial Data, Methods and Assumptions</u>
(Prepared by the LLA)

Unless indicated otherwise, the actuarial note for HB 26 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by PRSAC. The 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.

C. <u>Actuarial Caveat</u>
(Prepared by the LLA)

There is nothing in HB 26 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 costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings associated with government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings in Table A include administrative costs associated with the retirement systems and the sponsoring government entities. The total effect of HB 26 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. <u>Estimated Fiscal Impact – Retirement Systems</u>
(Prepared by the 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. Fiscal costs and savings include both administrative and actuarial costs and savings. 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.

Retirement System Fiscal Cost: Table A

EXPENDITURES	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-23**	**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	Negligible	Increase	Increase	Increase	Increase	Increase
Annual Total	Negligible	Increase	Increase	Increase	Increase	Increase

REVENUES	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-23**	**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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

HB 26 will have the following effect on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from MERS (Agy Self-Generated) will not change during the five year measurement period. More benefits will be paid ultimately, but just not within the next five years.

   b. If one or more of the six new members terminates employment and elects a refund of his own contribution, MERS will have expenditures in the five-year measurement period. For the purpose of this actuarial note, we have assumed that none of the six will terminate and request a refund. Therefore, MERS' expenditures are expected to be $0.

   c. Expenditures from Local Funds will increase because the employer contribution requirement (in dollars) will increase. This increase is very small.

3. Revenues:

   a. MERS revenues (Agy Self-Generated) will increase because employer contribution requirements will increase.

B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA)

1. Narrative

Table B shows the estimated fiscal impact of HB 26 on actuarial costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs associated with the government entity sponsoring the OPEB program. 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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

HB 26 will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

1. Expenditures:

   a. HB 26 will have no impact on expenditures associated with OPEB.

2. Revenues:

   a. HB 26 will have no impact on revenues associated with OPEB.

C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Bradley Cryer, Assistant Legislative Auditor)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact (administrative and actuarial) of HB 26 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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

HB 26 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

   a. The bill will have an indirect impact on administrative/implementation costs to enroll participating employers; however, these costs should be absorbed by each employer's existing administrative staff. The bill may also impact recruitment and retention based on a change in benefits; however, these factors cannot be quantified. In short, there is no direct material effect on government expenditures as a result of this measure.

3. Revenues:

   a. This bill is not expected to have a fiscal impact.

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by the LLA)

1. Narrative

Table D shows the estimated fiscal impact of HB 26 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.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	Negligible	Increase	Increase	Increase	Increase	Increase
Annual Total	Negligible	Increase	Increase	Increase	Increase	Increase

REVENUES	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<u>Credentials of the Signatory Staff:</u>

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.

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Bradley Cryer, Assistant Legislative Auditor, has supervised the preparation of the fiscal analyses contained herein.

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

[x] HB 26 contains a retirement system benefit provision having an actuarial cost.

No current member of MERS will receive a larger benefit with the enactment of HB 26 than what he would have received without HB 26. However new members will be receiving benefits, and new employers will be making contributions.

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 2018 regular session.

	Senate			House	
[ ]	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**	[ ]	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ $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 ≥ $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 ≥ $500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**