2018 REGULAR SESSION
REVISED ACTUARIAL NOTE SB 8

Senate Bill 8 SLS 18RS-39
Engrossed with Senate Retirement Committee Amendment #792

Author: Senator Peacock
Date: March 19, 2018
LLA Note SB 8.02

Organizations Affected:
Municipal Police Employees' Retirement System

EG DECREASE 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.

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<u>Bill Header:</u> MUNICIPAL POL EMPS RET: Provides for the classification of membership.

<u>Cost Summary:</u>

The estimated actuarial and fiscal impact of SB 8 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.

<u>Estimated Actuarial Impact:</u>

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:		**<u>Actuarial Cost</u>**
The Retirement Systems		Decrease
Other Post Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		Decrease
Five Year Fiscal Cost Pertaining to:	**<u>Expenses</u>**	**<u>Revenues</u>**
The Retirement Systems	Decrease	Decrease
Other Post Employment Benefits	0	0
Other Government Entities	<u>0</u>	0
Total	Decrease	Decrease

<u>Bill Information</u>

Current Law

Current law and administrative practices of the Municipal Police Employees' Retirement System (MPERS) pertaining to membership in the system are summarized below.

Members of MPERS fall into one of three categories:

1. ***Pre-2013 Member*** – A member first employed before January 1, 2013. The benefit accrual rate for such a member is 3 1/3% per year of service.

2. ***Post-2013 Hazardous Duty Member*** – a member who was hired into a hazardous duty position on or after January 1, 2013. The benefit accrual rate for such a member is 3.00% per year of service.

3. ***Post-2013 Non-hazardous Duty Member*** – a member who was hired into a non-hazardous duty position on or after January 1, 2013. The benefit accrual rate for such a member is 2.50% per year of service.

<u>Situation A</u>

Under current law, a ***Pre-2013 Member*** who terminated employment; received a refund of his own contributions; and was then reemployed on or after January 1, 2013 into a ***hazardous duty*** position becomes a ***Post-2013 Hazardous Duty Member.*** Such a person will accrue benefits at a 3.00% rate.

The member may purchase his prior service and have his original membership date restored by returning to MPERS the refund he had received when he originally terminated employment. He will then become a ***Pre-2013 Member*** and he will accrue benefits at a 3 1/3% rate.

Situation B

Under current law, a ***Pre-2013 Member*** who terminated employment; received a refund of his own contributions, and was then employed on or after January 1, 2013 into a ***non-hazardous duty*** position becomes a ***Post-2013 Non-hazardous Duty Member.*** Such a person will accrue benefits at a 2.50% rate.

The member may purchase his prior service and have his original membership date restored by returning to MPERS the refund he had received when he originally terminated employment. He will then become a ***Pre-2013 Member*** and he will accrue benefits at a 3 1/3% rate.

Under current administrative practices, a member of MPERS who is participating in Peace Officer Standards and Training program (POST training) is considered to be a hazardous duty member.

Proposed Law

Situation A

Under proposed law, a ***Pre-2013 Member*** who terminated employment; received a refund of his own contributions; and was then reemployed on or after January 1, 2013 into a ***hazardous duty position*** becomes a ***Post-2013 Hazardous Duty Member.*** Such a person will accrue benefits at a 3.00% rate. The member's prior service will not be restored and his membership date will not be back-dated.

However, if the member pays MPERS an amount equal to the increase in the accrued liability, then his prior service and his original membership date will be restored, and he will accrue benefits at a 3 1/3% rate.

Situation B

Under proposed law, a ***Pre-2013 Member*** who terminated employment; received a refund of his own contributions; and was then reemployed on or after January 1, 2013 into a ***non-hazardous duty position*** becomes a ***Post-2013 Non-hazardous Duty Member.*** Such a person will accrue benefits at a 2.50% rate. The member's prior service will not be restored and his membership date will not be back-dated.

However, if the member pays MPERS an amount equal to the increase in the accrued liability, then his prior service and his original membership date will be restored, and he will accrue benefits at a 3 1/3% rate.

A member who was first employed in a position making him eligible to participate in MPERS prior to January 1, 2013, and who received a refund of his employee contributions before June 30, 2018 will be grandfathered under current laws and provisions of SB 8 will not apply to him.

SB 8 provides that a member of MPERS participating in POST training will be considered to be a ***hazardous*** duty member of the system. This provision of SB 8 is merely a clarification of existing law and administrative practices.

Implications of the Proposed Changes

SB 8 will encourage ***Pre-2013 Members*** to leave their contributions in the retirement system when they terminate employment in order to retain their original membership date and prior service credits. SB 8 also codifies administrative practices associated with the membership rights of those who have been employed and are participating in the POST certification program.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by the 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 present value cost of SB 8 associated with the retirement systems will decrease. Our analysis is summarized below.

a. A member who terminated employment, received a refund of contributions prior to January 1, 2013, and returned to employment before January 1, 2013. SB 8 has no effect on such a member.

b. A member who terminated employment, received a refund of contributions prior to January 1, 2013, and returned to employment on or after January 1, 2013. Such a member, who is eligible for a 2.50% accrual rate or a 3.00% accrual rate, would like to have his original membership date restored to become eligible for the 3 1/3% accrual rate.

   1). Under current law, such a member will have his service restored and his membership back-dated if he returns to MPERS the refund (employee contributions without interest) he had received upon termination of employment.

2). Under proposed law, such a member will have his service restored and his membership back-dated if he pays to MPERS the additional accrued liability incurred by MPERS.

3). The additional accrued liability has a much larger value than the member's refund.

4). As a result, fewer members will request a restoration and back-dating. They will accrue benefits at a much lower rate and the benefit ultimately payable to such a member will be smaller

5). Therefore, the actuarial present value cost associated with SB 8 will decrease.

c. There is no actuarial cost associated with benefit accruals for members who are in a POST training program because SB 8 merely codifies long stand administrative practice. Such members are currently treated as a hazardous duty member even though they have not met all to conditions necessary. MPERS anticipates that these members will obtain the training and will become employed in a hazardous duty position.

The net effect of SB 8 will be a decrease in actuarial cost. Insufficient information is available to measure such cost decrease with any degree of precision.

2. Other Post-Employment Benefits (OPEB)

The actuarial present value cost of SB 8 associated with OPEB, including retiree health insurance premiums, is expected to decrease slightly. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by treating returning members as new members and allowing employees in POST training to become members of the Hazardous Duty sub plan. If anything, there could be a slight decrease if disallowing returning employees from buying back their past service at the pre-2013 benefit rate causes them to work longer before retiring. However, these fiscal events are not likely to occur within the five year measurement period. For the purpose of this actuarial note, the actuarial cost associated with OPEB and SB 8 is estimated to b $0.

3. Other Government Entities

The actuarial cost of SB 8 associated with government entities other than MPERS and its sponsors is estimated to be $0.

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

Unless indicated otherwise, the actuarial note for SB 8 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 SB 8 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 SB 8 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.

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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	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	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	Increase	Decrease	Decrease	Decrease	Decrease	Decrease

Annual actuarial fiscal costs associated with SB 8 are difficult to measure. Actuarial costs revenue increases will vary significantly from year to year. SB 8 will have the following effects on retirement related fiscal costs and revenues during the five-year measurement period.

2. Expenditures:

   a. Expenditures from MPERS (Agy Self-Generated) will decrease because members electing to not purchase prior service credits and receive a back-dated membership date will receive smaller pension benefits.

   b. Expenditures from MPERS will increase to the extent that members elect to purchase prior service credits and back-date their membership.

   c. We expect that net benefit expenditures from MPERS (Agy Self-Generated) will increase in some year and decrease in others. However, net deceases will occur more frequently than net increases, particularly as time passes.

   d. Expenditures from the Local Funds will increase or decrease. If members do not purchase prior service credits and as a result do not have their membership date back-dated, then employer contribution requirements will decrease. If they do make the purchase, employer contribution requirements will increase.

   e. We expect that employer contribution requirements will decrease over time.

3. Revenues:

   a. MPERS revenues (Agy Self-Generated) will increase for every member who purchases prior service credits and back-dated their membership. Under SB 8, such a member will pay MPERS the actuarial present value of the additional liability created by the granting of such service credits and the back-dating of membership. Without SB 8, the member would only pay MPERS the refund he received when he terminated employment.

   b. MPERS revenues (Agy Self-Generated) will decrease because employer contribution requirements will decrease.

   c. Over time, MPERS revenues will decrease as a result of SB 8.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

   Table B shows the estimated fiscal impact of SB 8 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

SB 8 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

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 SB 8 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

SB 8 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

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

3. Revenues:

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

D. Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of SB 8 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	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	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	Increase	Decrease	Decrease	Decrease	Decrease	Decrease

Credentials of the Signatory Staff:

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.

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] SB 8 contains a retirement system benefit provision having an actuarial cost.

Benefits under some circumstances will be larger with the enactment of SB 8 than they would be without its enactment.

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

[ ] 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 the 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 the bill is dual referred to:
Dual Referral to Appropriations

[ ] 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