


2018 REGULAR SESSION
ACTUARIAL NOTE HB 32

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| <p>House Bill 32 HLS 18RS-260 Engrossed</p> <p>Author: Representative Pearson Date: March 16, 2018 LLA Note HB 32.02</p> <p>Organizations Affected: Municipal Employees' Retirement System of Louisiana</p> <p>EG NO IMPACT APV</p> | <p>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.</p> <div><p>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</p></div> |
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Bill Header: RETIREMENT/MUNICIPAL EMP: Provides for the Deferred Retirement Option Plan participation period for a member of the Municipal Employees' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 32 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 | | \$0 |
| Other Post Employment Benefits (OPEB) | | 0 |
| Other Government Entities | | <u>0</u> |
| Total | | \$0 |
| | | |
| Five Year Fiscal Cost Pertaining to: | Expenses | Revenues |
| The Retirement Systems | \$0 | \$0 |
| Other Post Employment Benefits | 0 | 0 |
| Other Government Entities | <u>0</u> | <u>0</u> |
| Total | \$0 | \$0 |

Bill Information

Current Law

Current law provides that members of the Municipal Employees’ Retirement System of Louisiana (MERS) may remain in the Deferred Retirement Option Plan (DROP) for a period not to exceed three years.

Proposed Law

HB 32 provides that if the employer contributions on behalf of a member are suspended during his participation in the DROP as a result of interruption of employment, the benefit payments in the DROP will also be suspended until the employer contributions are restored. In such a case the member’s participation in the DROP will be extended by the number of months the benefit payments were suspended. So the participation period may extend over a period exceeding three calendar years, but benefit payments would only be made into the participant’s DROP subaccount for up to thirty-six months.

Implications of the Proposed Changes

Current law does not address how DROP participation is affected by an interruption of employment. MERS has interpreted and is already administrating the DROP provisions according to the proposed law. HB 32 merely provides clarity to the DROP provisions when a member has an interruption of employment while participating in the DROP.

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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 cost or savings of HB 32 associated with the retirement systems is estimated to be \$0. The actuary's analysis is summarized below.

HB 32 adds a provision which describes the way the DROP is already administered by MERS, and therefore does not have any effect on the actuarial cost for the retirement system.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 32 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by aligning the DROP provisions with the way the DROP is administered by MERS.

3. Other Government Entities

The actuarial cost or savings of HB 32 associated with government entities other than those identified in HB 32, is estimated to be \$0.

**B. Actuarial Data, Methods and Assumptions
(Prepared by the LLA)**

Unless indicated otherwise, the actuarial note for HB 32 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. Actuarial Caveat
(Prepared by the LLA)**

There is nothing in HB 32 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 32 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(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 | 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 32 will have no effect on retirement related fiscal costs and revenues during the five year measurement period.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 32 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 32 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 HB 32 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.

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

2. Expenditures:

This bill is not expected to have a fiscal impact.

3. Revenues:

This bill is not expected to have a fiscal impact.

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

1. Narrative

Table D shows the estimated fiscal impact of HB 32 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 | 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 |

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.

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

☐ HB 32 contains a retirement system benefit provision having an actuarial cost.

No member of MERS will receive a larger benefit with the enactment of HB 32 than what he would have received without HB 32.

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 | |
|--------------------------|--|--------------------------|---|
| <input type="checkbox"/> | 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 | <input type="checkbox"/> | 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 |
| <input type="checkbox"/> | 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 | <input type="checkbox"/> | 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 |