

2018 REGULAR SESSION
ACTUARIAL NOTE HB 40

House Bill 40 HLS 18RS-239 Enrolled Author: Representative Ivey Date: May 3, 2018 LLA Note HB 40.03 Organizations Affected: Firefighters' Retirement System EN NO IMPACT 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
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Bill Header: RETIREMENT/FIREFIGHTERS: Allows members of the Firefighters' Retirement System to allocate Deferred Retirement Option Plan funds between two separate interest bearing accounts.

Cost Summary:

The estimated actuarial and fiscal impact of HB 40 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:		<u>Actuarial Cost</u>
The Retirement Systems		\$0
Other Post Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		\$0
Five Year Fiscal Cost Pertaining to:	<u>Expenses</u>	<u>Revenues</u>
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 allows a member of the Firefighters’ Retirement System (FRS) with at least 20 years of creditable service and who is eligible for retirement to terminate system membership and become a participant in the Deferred Retirement Option Plan (DROP). Upon entering DROP the participant may make an irrevocable written election to have his account earn the same return as the system’s investment portfolio. If there is no election the DROP account is invested in a liquid money market investment.

If the individual returns to employment which makes him eligible to be a member of the system, his DROP balance shall not earn interest while he is so employed. However, the board has the option to have the DROP balance transferred to a self-directed account.

Proposed Law

HB 40 retains the provision that the DROP account is invested in a liquid money market investment if no election is made. However, it allows the participant to make a one-time, irrevocable election upon entering DROP to allocate his DROP account into the money market subaccount, or the system investment portfolio subaccount, or to allocate a portion to both subaccounts. Each current DROP participant will be allowed to make the same one-time, irrevocable election to allocate his balance, and will also be allowed to make a one-time, irrevocable election to convert his balance to an annuity.

HB 40 also eliminates the self-directed account as an option to the board.

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Implications of the Proposed Changes

HB 40 allows participants to determine the amount of risk/return they want in their DROP accounts by allowing them to allocate part of their accounts into the money market subaccount and the rest into the system investment portfolio subaccount.

HB 40 also protects the system from possible issues associated with self-directed accounts by eliminating that option.

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 40 associated with the retirement systems is expected to be \$0. Our analysis is summarized below.

Allowing DROP participants to allocate their accounts between the two alternatives already provided does not increase amounts payable from the system to DROP participants. And investment earnings generated by DROP accounts will be credited to those accounts, less a reasonable fee to cover administrative expenses, so there is no impact on system assets.

Similarly, eliminating the self-directed option does not increase the amount payable from the system.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 40 associated with OPEB, including retiree health insurance premiums, is expected to be \$0. Our analysis is summarized below.

The liability for post-employment benefits other than pensions is not affected by the provisions of HB 40 permitting DROP participants to allocate their accounts between the two alternatives already provided. Nor is the liability affected by the elimination of the self-directed option.

3. Other Government Entities

The actuarial cost or savings of HB 40 associated with government entities other than FRS and its sponsors, is expected to be \$0.

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

Unless indicated otherwise, the actuarial note for HB 40 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 40 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 40 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. 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 40 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 40 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 40 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 of HB 40 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 40 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 40 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 40 contains a retirement system benefit provision having an actuarial cost.

No member of FRS will receive a larger benefit with the enactment of HB 40 than what he would have received without HB 40.

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 $\geq$ \$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 $\geq$ \$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 $\geq$ \$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 $\geq$ \$500,000, then the bill is dual referred to: Dual Referral: Ways and Means