2018 REGULAR SESSION
ACTUARIAL NOTE HB 8

House Bill 8 HLS 18RS-154 **Enrolled** **Author: Representative Ivey** **Date: May 3, 2018** **LLA Note HB 8.03** **Organizations Affected:** **Clerks' of Court Retirement and Relief Fund** **EN 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.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT/CLERKS COURT: Provides relative to the reemployment of retirees of the Clerks' of Court Retirement and Relief Fund.

<u>Cost Summary:</u>

The estimated actuarial and fiscal impact of HB 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>	<u>0</u>
Total	Decrease	Decrease

<u>Bill Information</u>

Current Law

Current law allows for a retired member of the Clerks' of Court Retirement and Relief Fund (CCRS) to be temporarily reemployed without becoming an active member. If a retiree is reemployed for more than 60 days during a calendar year, the retirement benefits will be reduced by the amounts earned after the first 60 days of reemployment. Since the reemployed retiree is not considered an active member, no employer contributions are required during the reemployment period.

Current law also contains special provisions for retirees temporarily reemployed following hurricane Katrina or Rita, which expired in 2012, 2013, and 2014.

Proposed Law

HB 8 will increase the time period that a retiree can be reemployed without a reduction in the retirement benefits from 60 days to six-hundred thirty hours.

HB 8 will require the employer to make contributions to the system during the period of reemployment after June 30, 2018, whether the retiree is reemployed in a full-time or part-time position. However, the retiree will not receive additional service credits or additional retirement benefits in the system. Upon termination of reemployment, the employer contributions and interest on such contributions will remain with the retirement system.

In addition, HB 8 will repeal the provisions related to hurricane Katrina or Rita which expired in 2012, 2013, and 2014.

Implications of the Proposed Changes

HB 8 extends the period a reemployed retiree of CCRS can return to work and earn an income from employment without a reduction in his original pension benefit from 60 days to six-hundred thirty hours.

It also requires employers to make contributions during the reemployment period, which will remain in the fund.

Benefits for the reemployed retiree will not be increased to reflect the additional service. The additional employer contributions are expected to more than offset the costs of paying the additional month of benefits to the reemployed retirees.

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 of HB 8 associated with CCRS is expected to decrease. Our analysis is summarized below.

Increasing the period that a retiree can work without a reduction in retirement benefits from 60 days to 630 hours will ***increase*** the cost of retirement benefits for future rehired retirees. A cost increase occurs because reemployed retirees will cause CCRS to pay an additional month of retirement benefits.

On the other hand, mandating that employers contribute to CCRS on salaries paid to reemployed retirees will cause CCRS revenues to increase. Currently, employers do not contribute on salaries paid to reemployed retirees. Under HB 8, such employers will have to contribute. Employer contributions will more than offset the additional benefits paid.

Based on the June 30, 2017 actuarial valuation:

a. Employer contributions requirements are expected to be 19.00% of pay.

b. There are currently 100 reemployed retirees with a total salary of $982,988. The average pay received is about $9,800.

c. Employers of reemployed retirees will be required to contribute about $1,900 per reemployed retiree.

d. The average pension benefit is about $2,200 per month.

Using this rough data, it is clear that additional revenues are about equal to additional costs for CCRS. Over time, it is likely that HB 8 will make it less attractive for employers to hire retirees. Currently, retirees can be reemployed without any employer contribution requirement. Under HB 8, employer contributions will be required. As a result, the employer should become less willing to hire a retiree and more willing to hire a new employee. As the number of reemployed retirees decreases, actuarial savings will begin to occur. The net effect will be a decrease in actuarial costs.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 8 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 extending the period for unreduced pension benefits and requiring employer contributions during a reemployment period.

3. Other Government Entities

The actuarial cost or savings of HB 8 associated with government entities other than those identified in HB 8, is estimated to be $0.

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

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

There is nothing in HB 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 HB 8 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.

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	Negligible	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	Negligible	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	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

HB 8 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from CCRS (Agy Self-Generated) will initially increase due to paying retirement benefits for an additional month during reemployment.

   b. CCRS expenditures (Agy Self-Generated) may increase because HB 8 may require additional administrative/implementation costs associated with hiring, retaining, and tracking the status of re-employed retirees under the new provisions. Such costs are considered to be negligible.

   c. Local Fund expenditures will decrease because the dollar amount of required employer contributions will decrease as fewer retirees are reemployed.

3. Revenues:

   a. CCRS revenues (Agy Self-Generated) will decrease as the number of reemployed retirees decreases and the dollar amount of employer contributions decreases.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 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

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

C. <u>Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)</u>
(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 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

HB 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. There is no anticipated direct material effect on expenditures associated with governmental entities other than CCRS.

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 HB 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	Negligible	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	Negligible	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	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

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

Some CCRS employees will receive a larger benefit with the enactment of HB 8 than they would receive without HB 8.

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