


**2019 REGULAR SESSION
ACTUARIAL NOTE SB 15**

<p>Senate Bill 15 SLS 19RS-101 Engrossed REVISED</p> <p>Author: Senator Long Date: April 23, 2019 LLA Note SB 15. 02</p> <p>Organizations Affected: Louisiana State Employees’ Retirement System</p> <p>EG INCREASE 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> <p style="text-align: center;"></p> <p>James J. Rizzo, ASA, MAAA Senior Consultant & Actuary Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor</p>
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Bill Header: STATE EMPLOYEE RET. Provides for firefighters at state agencies to be members of the hazardous duty plan. (2/3 - CA10s29(F)) (6/30/19)

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the *net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system*. Net 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 *net 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 (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		Net Actuarial Cost
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		Increase
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Other Post-employment Benefits	Increase	0
Other Government Entities	0	0
Total	Increase	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

Current Law

The Louisiana State Employees’ Retirement System (LASERS) includes a sub-plan for members whose first employment in a position making them eligible for membership in a state system occurred on or after January 1, 2011, and who are employed in hazardous duty positions. The benefit multiplier for the Hazardous Duty sub plan is 3 1/3% per year of service, and they can retire at age 55 with twelve years of service, or with 25 years of service regardless of age.

LASERS also covers Rank and File employees of the state. The benefit multiplier for the Rank and File is 2.5% per year of service, and members can retire at age 60 with five years of service (age 62 with five years if first employed on or after July 1, 2015).

The employees of the Department of Agriculture and Forestry who respond to wildfires and who qualify as Firefighter Type 2 or higher according to the National Wildfire Coordinating Group, and were first employed in a position making them eligible for membership in a state system on or after January 1, 2011 are permitted to be covered by LASERS’ Hazardous Duty sub plan instead of the Rank and File sub-plan.

Proposed Law

SB 15 relaxes eligibility conditions to qualify for membership in the Hazardous Duty sub-plan by removing the requirement that a member qualify as a Firefighter Type 2 or higher according to the National Wildfire Coordinating Group, and replaces it with the requirement that the member be trained as a wildland firefighter

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Implications of the Proposed Changes

Not all of the employees of the Department of Agriculture and Forestry who respond to wildfires qualify as Firefighter Type 2 or higher according to the National Wildfire Coordinating Group. Consequently only some of employees responding to wildfires meet the eligibility to participate in the Hazardous Duty sub-plan. By changing the requirement to completing general wildland firefighter training, more employees are expected to cease being Rank and File members and become members of the Hazardous Duty sub-plan. They would be eligible to retire earlier, and will qualify for a larger benefit payable at retirement, or upon disability or death while in the line of duty.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Net Actuarial Costs
(Prepared by LLA)**

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost of the proposed legislation associated with the retirement systems is expected to increase. The actuary’s analysis is summarized below.

The following table compares the major benefit provisions for the Rank and File to the major benefit provisions of the Hazardous Duty sub plan.

Benefit Provision	Rank and File Members*	Hazardous Duty Members
Benefit Multiplier	2.5% x service	3 1/3% x service
Normal Retirement Age	Age 62 with 5 years of service	Age 55 with 12 years of service, or Any age with 25 years of service
Line of Duty Disability Benefit	accrued retirement benefit without actuarial reduction	75% x final average compensation
Employee Contribution Rate	8.0%	9.5%

*Rank and File Members first employed on or after July 1, 2015.

Actuarial costs will increase because benefits provided to firefighter members of LASERS would be larger under the Hazardous Duty sub-plan than for the Rank and File members.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost of the proposed legislation associated with OPEB, including retiree health insurance premiums, is expected to increase. The actuary’s analysis is summarized below.

Members who will move from the Rank and File to the Hazardous Duty sub plan can be expected to retire earlier than they would have otherwise. Therefore, they would collect OPEB benefits sooner and for a longer period of time.

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

A detailed review of the actuarial data, methods or assumptions applicable to these retirement systems was not made or required for the preparation of this Actuarial Note.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in the proposed legislation 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 (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of SB 15 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by 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	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
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

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Increase	Increase	Increase	Increase	Increase

The proposed legislation would have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures

- a. Expenditures from the General Fund would increase because employer contribution requirements would increase, as eligible Rank and File member transfer. The total contribution requirement will increase: employee contribution requirements will increase and employer contribution requirements will increase.
- b. LASERS' expenditures will increase because the system would be paying larger benefits under SB 15.
- c. LASERS' expenditures for administration will increase in the first year of the benefit change as it incurs costs for software modifications to existing computer programs to identify the members specified in the bill and transfer them to the Hazardous Duty Plan. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

3. Revenues:

LASERS' revenues (Agy Self-Generated) will increase because employer and employee contribution requirements would increase.

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

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. 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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OPEB Fiscal Cost: Table B

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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

The proposed legislation would have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

- a. Expenditures from the General Fund would increase because some members employed by the Department of Agriculture and Forestry may retire earlier under SB 15 than under current law and employer-provided insurance premiums for retirees would increase.

3. Revenues:

- a. SB 15 will have no fiscal impact on LASERS relative to OPEB.

**C. Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)
(Prepared by Tanesha Morgan, Legislative Fiscal Office)**

1. Narrative

Present law defines “members” of the Louisiana State Employees’ Retirement System’s (LASERS) Hazardous Duty Plan to include: certain Department of Wildlife and Fisheries wildlife agents; Louisiana Department of Agriculture and Forestry (LDAF) who respond to wildfires and who qualify as Firefighter Type 2 or higher according to the National Wildfire Coordinating Group; certain Louisiana State University Health Sciences Center hospital security officers; certain Department of Public Safety and Corrections employees; employees of the bridge police section of the Crescent City Connection Division of the Department of Transportation and Development; certain Department of Revenue law enforcement personnel; certain Department of Culture, Recreation, and Tourism park rangers; certain campus police officers employed by any institution of postsecondary education; certain investigators employed by the Department of Justice, Office of the State Fire Marshall, and Office of State Inspector General; and all personnel employed in positions required to be Peace Officer Standards and Training (POST) certified, who have the power to arrest, who hold a commission as required for employment in such positions, who are otherwise members of the Louisiana State Employees’ Retirement System, and who are not members of any other retirement system. Proposed law expands this list to include wildlife firefighters trained in accordance with R.S. 3:4276(9).

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Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	\$ 20,047	\$ 20,047	\$ 20,047	\$ 20,047	\$ 20,047	\$ 100,235
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	20,047	20,047	20,047	20,047	20,047	100,235
Local Funds	0	0	0	0	0	0
Annual Total	\$ 40,094	\$ 40,094	\$ 40,094	\$ 40,094	\$ 40,094	\$ 200,470

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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 15 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

The maximum projected cost of this bill is approximately \$40 K per year for the Louisiana Department Agriculture and Forestry (LDAF); however, the actual cost could be less based on the number of firefighters that elect to participate in the Hazardous Duty Plan. The table above reflects the maximum exposure to the agency.

This measure provides that certain firefighters employed by the LDAF may participate in the LASERS Hazardous Duty Plan. There are projected to be up to 112 firefighters that may be impacted by this bill. These firefighters are currently in the LASERS Rank and File Plan. The projected FY 20 employer contribution rate for the LASERS Hazardous Duty Plan is 41.7%. The projected FY 20 employer contribution rate for the LASERS Rank and File Plan is 40.7%. This measure increases the LDAF's retirement expenses for these firefighters by the difference, which is 1.0% or up to \$40 K based on the firefighters' salary and the firefighter's election to participate into the Hazardous Duty Plan. To the extent that these firefighters' salaries increase in the future, the retirement expenses to LDAF will increase proportionally by an additional 1.0%.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

**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 the proposed legislation 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.

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

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Increase	Increase	Increase	Increase	Increase

Credentials of the Signatory Staff:

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

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

SB 15 contains a retirement system benefit provision having an actuarial cost.

Some members of LASERS will receive a larger benefit and be able to retire earlier with the enactment of SB 15 than without SB 15.

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 2019 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