2020 REGULAR SESSION
ACTUARIAL NOTE HB 18

House Bill 18 HLS 20RS-116 **Original** **Author: Representative Bacala** **Date: March 2, 2020** **LLA Note HB 18.01** **Organizations Affected:** **Municipal Police Employees' Retirement System** **OR DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.** **Lowell P. Good, ASA, EA, MAAA** **Actuarial Services Manager**

Bill Header: RETIREMENT/MUNICIPAL POL: Provides relative to contributions to and the administration of the Municipal Police Employees' Retirement System.

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 local and state 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		Decrease
Other Post-employment Benefits (OPEB)		0
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	0	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Increase	0
State Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

The current laws for the provisions affected by HB 18 are:

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

2. Current law provides that upon the effective date of commencement of participation in DROP, neither employee nor employer contributions are payable.

3. Current law provides for the payment of the unfunded accrued liability by an employer participating in MPERS that fully dissolves its police department and contracts for police services with another entity. It also provides that payments are payable beginning July first of the fiscal year following the withdrawal from MPERS by the participating employer.

4. Current law provides that when a member has earned benefits equal to one hundred percent of his average final compensation, no further contributions are required from him.

5. Current law provides that a member who is receiving worker's compensation and who does not pay the full amount that would be his employee contribution if he were not receiving worker's compensation may receive service credit for purposes of eligibility determination but not for computation of benefits purposes.

Proposed Law

The provisions under HB 18 corresponding to the above current laws are:

1. HB 18 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. The participation period may therefore 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.

2. HB 18 provides that upon the effective date of commencement of participation in DROP, employee contributions will cease but employer contributions will continue to be payable.

3. HB 18 provides that payments are payable beginning July 1st following the determination by the MPERS' actuary of the amount owed.

4. HB 18 provides that both employer and employee contributions will continue after a member has earned benefits equal to one hundred percent of his final average compensation.

5. HB 18 provides that a member who is receiving worker's compensation and who does not pay the full amount that would be his employee contribution if he were not receiving worker's compensation, will not receive service credit for any purpose.

The following provisions are also contained in HB 18:

a. HB 18 provides that delinquent payments of employee or employer contributions by an employer of MPERS are subject to the following:

   1. Interest charged at the legal rate from the date the payment became delinquent.
   2. Payments delinquent in excess of 90 days are subject to a penalty of 25% of the aggregate contributions due.
   3. Payments delinquent in excess of 180 days are subject to payment of the greater of (1) or (2) above and an amount equal to the actuarial cost of a purchase of the service credit for which contributions were not timely paid calculated by the MPERS' actuary.
   4. Reimbursement of MPERS for any legal and actuarial fees paid by MPERS in the collection of amounts under HB 18.

b. HB 18 authorizes MPERS' board of trustees to make, amend, and promulgate rules and to provide for the establishment and maintenance of MPERS.

c. HB 18 provides that all employers need to report separately the amount of compensation paid for overtime on their monthly contribution reports.

Implications of the Proposed Changes

The implications of the four provisions under HB 18 affecting the above current laws are:

1. Current law does not address how DROP participation is affected by an interruption of employment. MPERS has interpreted and is already administering the DROP provisions according to the description in the proposed law. HB 18 provides clarity to the DROP provisions when a member has an interruption of employment while participating in the DROP.

2. Employer contributions are expected to increase because they will continue to be payable upon the effective date of commencement of participation in DROP.

3. Payments following the withdrawal from MPERS by the participating employer will be payable beginning July 1st after the determination by the MPERS' actuary of the amount owed rather than beginning July 1st of the fiscal year following the withdrawal from MPERS. This is not expected to result in a change in the amount of contributions payable.

4. Employee contributions are expected to increase since they will continue to be payable after a member has earned benefits equal to one hundred percent of his final average compensation.

5. Actuarial liabilities are expected to decrease because a member who is receiving worker's compensation and who does not pay the full amount that would be his employee contribution if he were not receiving worker's compensation will not receive service credit for purposes of eligibility determination. This is generally expected to result in delaying the member's retirement date.

In addition, HB 18 is expected to ensure that MPERS will receive contributions required by participating employers and employees under the current law in a timely manner.

2020 REGULAR SESSION
ACTUARIAL NOTE HB 18

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

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 or savings of the proposed legislation associated with the retirement systems is estimated to be a decrease in cost. The actuary's analysis is summarized below.

HB 18 makes several changes to the current law. The changes that affect revenues and liabilities are:

- Employer contributions will continue to be payable while a member is in the DROP (revenue increase).
- Employee contributions will continue to be payable after a member has earned benefits equal to one hundred percent of his final average earnings (revenue increase).
- A member on workers compensation who is no longer paying his full employee contribution, will no longer receive service credit for purposes of eligibility. Since eligibility for retirement is generally a function of age and service, this change can be expected to delay retirement eligibility for such a member (liability and benefit decrease in later years).

2. Other Post-employment Benefits (OPEB)

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

The liability of local participating employers for post-retirement medical insurance subsidies provided to retirees is not affected by any of the provisions contained in HB 18.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

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 IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

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.

2020 REGULAR SESSION
ACTUARIAL NOTE HB 18

Retirement System Fiscal Cost: Table A

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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

2. Expenditures:

   a. Expenditures by MPERS (Agy Self Generated) are not expected to change materially during the next five years, while in years thereafter, there may be slight decreases due to delayed eligibilities for members receiving workers compensation.

   b. Expenditures from the Local Funds will increase to the extent that more employer contributions will be required during the member's participation in the DROP and to the extent that interest will be charged on delinquent amounts and required payments to MPERS will be made earlier than they would have otherwise.

3. Revenues:

   MPERS revenues (Agy Self Generated) will increase to the extent that more employer contributions will be received during the members' participation in the DROP and to the extent that required payments will be paid earlier and interest will be charged on delinquent amounts.

B. <u>Estimated Fiscal Impact – OPEB</u>
(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.

OPEB Fiscal Cost: Table B

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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 will have the following effects on fiscal costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by John Carpenter, Legislative Fiscal Officer)

1. Narrative

   Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 will have the following effects on fiscal costs and revenues related to state government entities during the five year measurement period.

2. Expenditures:

   N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

3. Revenues:

   N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

Credentials of the Signatory Staff:

Lowell P. Good is 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of 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.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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

☐ HB 18 contains a retirement system benefit provision having an actuarial cost.

No member of the Municipal Police Employees' Retirement System would receive a larger benefit with the enactment of HB 18 than what he would have received without HB 18.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 regular session.

Senate			House		
☐	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**	☐	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**
☐	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**	☐	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 Mea**