



**2020 REGULAR SESSION
ACTUARIAL NOTE SB 3**

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| <p>Senate Bill 3 SLS 20RS-6 Enrolled</p> <p>Author: Senator Allain Date: May 29, 2020 LLA Note SB 3.03</p> <p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>EN INCREASE APV</p> | <p>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.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  Lowell P. Good, ASA, EA, MAAA Actuarial Services Manager </div> <div style="text-align: center;">  James J. Rizzo, ASA, EA, MAAA Senior Consultant & Actuary Gabriel, Roeder, Smith & Company </div> </div> |
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Bill Header: STATE EMPLOYEE RET: Adds Morgan City and Berwick housing authorities to system membership. (2/3-CA 10s29(F)) (6/30/20)

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

Current law provides for membership in the Louisiana State Employees' Retirement System (LASERS) to certain employees.

Current law specifies that for purposes of determining eligibility for membership in LASERS, the legislature will provide by law whether or not the types of agency service performed by employees, elected officials, and appointed officials of new agencies are within the scope of provisions of the current law.

Proposed Law

SB 3 allows employees of the Berwick Housing Authority (BHA) and the Morgan City Housing Authority (MCHA) to become members of LASERS.

SB 3 also provides that after June 30, 2020 and on or before September 30, 2020, the boards of the BHA and MCHA may adopt resolutions declaring the authorities to be participating employers in LASERS. Contributions to the system and accrual of benefits will begin with the first pay period following LASERS' receipt of the resolutions. If either BHA or MCHA does not adopt a resolution on or before September 30, 2020, the provisions of SB 3 will be null and void with respect to the Authority failing to adopt.

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Implications of the Proposed Changes

SB 3 provides that BHA and MCHA can adopt resolutions to become participating employers in LASERS. If resolutions are adopted, employees of BHA and/or MCHA will become members of LASERS. If resolutions are not adopted by September 30, 2020, the provisions of SB 3 will be null and void.

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 an increase in cost. The actuary's analysis is summarized below.

Adding members to LASERS does not change the amount or timing of benefit payments for the current members of LASERS. However, the employees of BHA and MCHA may become members of LASERS. These employees would accrue retirement benefits, and contributions would be required to fund the benefits. Therefore, there is likely an actuarial cost for SB 3.

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 actuarial cost of the proposed bill associated with OPEB, including retiree health insurance subsidies, is being treated as no cost for the purpose of this Actuarial Note. Post-employment benefit programs for the employees of BHA and MCHA depend on the provision for such benefits within the respective Authorities, not on their participation in LASERS. Any OPEB program sponsored by the Authorities would have its own eligibility conditions. While this proposed bill affects when their respective employees' eligibility conditions for commencing retirement benefits under LASERS, it does not affect the Authorities' respective eligibility conditions for commencing OPEB benefits. Any change in OPEB benefit eligibility would be the decision and action of BHA and MCHA themselves. Therefore, the actuarial cost of the proposed bill relative to post-employment benefits is considered \$0.

**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.

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Retirement System Fiscal Cost: Table A

| EXPENDITURES | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 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 | 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 LASERS (Agy Self Generated) will likely increase, possibly beginning in 2020-21 if during that period participation is adopted, contributions are made and contributions are refunded for any terminations. More employees are expected to participate in LASERS and accrue benefits. Therefore, benefit payments for LASERS will likely be larger than they are currently.
- b. Expenditures from the State General Fund will likely increase, possibly beginning in 2020-21 if during that period participation is adopted and contributions are made.

3. Revenues:

LASERS revenues (Agy Self-Generated) will likely increase, possibly beginning in 2020-21 if during that period participation is adopted and contributions are made.

**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.

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 |

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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 fiscal impact will be presented for expenditures. The legislation provides an option, rather than a requirement, for the housing authorities to join the retirement system, with the net increase or decrease in non-contribution expenditures depending on the existing employee benefits offered at the time of joining.
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.

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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:

Other than the impact on employer contribution rates which is already reflected in Table A above, there is no anticipated direct material effect on governmental expenditures as a result of this measure.

3. Revenues:

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

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:

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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

SB 3 contains a retirement system benefit provision having an actuarial cost.

Some members of the Louisiana State Employees' Retirement System could receive a larger benefit with the enactment of SB 3 than what they would have received without SB 3.

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.

| <u>Senate</u> | <u>House</u> |
|--|---|
| <input type="checkbox"/> 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 | <input type="checkbox"/> 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 |
| <input type="checkbox"/> 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 | <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 \geq \$500,000, then the bill is dual referred to: Dual Referral: Ways and Means |