


**2020 SECOND EXTRAORDINARY SESSION
ACTUARIAL NOTE HB 97**

<p>House Bill 97 HLS 202ES-433 (Substitute for House Bill 36) Reengrossed</p> <p>Author: Representative Bacala Date: October 16, 2020 LLA Note HB 97.02</p> <p>Organizations Affected: State Retirement Systems</p> <p>RE 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> <p style="text-align: center;"></p> <p>Lowell P. Good, ASA, EA, MAAA Actuarial Services Manager</p>
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Bill Header: RETIREMENT/STATE SYSTEMS: Provides relative to reemployment of retirees during a declared emergency (Item #2).

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:		<u>Net Actuarial Cost</u>
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		0
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	Increase	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Increase	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 restrictions and limitations on the reemployment of a retiree from any of the four Louisiana State Retirement Systems if such reemployment is covered by the same system as follows:

- (1) Louisiana State Employees' Retirement System (LASERS): Provides a reemployed retiree with the following three options:
 - a. Have his retirement benefit reduced if his employment earnings exceed a specified amount,
 - b. Return all received benefits and become an active member of the retirement system, or
 - c. Have his benefit suspended during such reemployment.

- (2) Teachers' Retirement System of Louisiana (TRSL): Provides a reemployed retiree with the following two options:
 - a. Have his retirement benefit reduced if his employment earnings exceed a specified amount, or
 - b. Have his benefit suspended during such reemployment.

Current law provides for other options and circumstances for a retiree who was reemployed prior to July 1, 2020.

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- (3) Louisiana School Employees' Retirement System (LSERS): Prohibits reemployment of a retiree for five years after retirement.
- (4) Louisiana State Police Retirement System (LSPRS): Provides for suspension of the retirement benefit if employment earnings exceed a specified amount.

Current law also prohibits a person who retires under an early retirement incentive plan of the state of Louisiana for state employees from being employed by any department of state government for two years after the effective date of their retirement. There are exceptions for seasonal firefighting personnel, and for election-related personnel for a specified period during elections.

Proposed Law

HB 97 provides exceptions to the current law for LASERS, TRSL, LSERS, and LSPRS on matters of reemployment after retirement. It authorizes reemployment without any effect on the retirement benefits if the following conditions apply to the reemployment:

- (1) The reemployment occurs during a state of emergency declared by the governor.
- (2) The employer certifies in writing to the retirement system that employment of the retiree is critical to the effectiveness of the employer's response to or operations during the emergency. Such a certification shall expire six months after it is submitted to the system, but the employer may renew the certification.
- (3) The date of the retiree's retirement is more than thirty days prior to the initial declaration of the state of emergency for which he is reemployed.
- (4) The retiree's retirement was not based on a disability.

During such reemployment, the reemployed retiree and his employer will make contributions. However, the reemployed retiree will receive no additional service credit and will not accrue any additional benefits. After termination of active service, the retiree will be refunded the employee contributions paid during reemployment. The refund will be without interest. The system will retain all interest and employer contributions.

If on the first day of any Regular Session of the Legislature, a state of emergency has been in effect continuously for more than three hundred sixty-five days, the proposed law will cease to be applicable to the reemployment of retirees pursuant to that state of emergency sixty days after final adjournment of that session.

The proposed law permits rehiring persons who retire under an early retirement incentive plan within two years of their retirement dates if such reemployment occurs during a state of emergency declared by the governor and the employer certifies in writing to the appropriate retirement system that reemployment of the retiree is critical to the effectiveness of the employer's response to the emergency.

In addition, the proposed law provides for the following:

- (1) LASERS:
 - a. The proposed law is applicable to the employment of a retiree only while the state of emergency for which he is reemployed is in effect. Once the proposed law is no longer applicable, a retiree is subject to the provisions of the current law.
 - b. The retiree and the employer are not required to provide all the reporting to the retirement system that would otherwise be required for such reemployment. However, the employer will be required to report the date of employment and date of termination for any retiree reemployed.
- (2) TRSL:
 - a. The proposed law is applicable to the employment of a retiree only until the last day of the month in which the state of emergency for which he is reemployed terminates.
 - b. Beginning on the first day of the month following the termination of the declaration of emergency, the retiree's earnings will not exceed twenty-five percent of his final average compensation during such fiscal year and benefits payable to the retiree will be reduced by the amount in excess of said limit.
 - c. Unless the retiree terminates reemployment sooner, enrollment of any retiree in the system pursuant to the proposed law will terminate on the last date of the fiscal year in which the state of emergency terminates and the retiree will be subject to the applicable provisions of the current law.
 - d. Any retiree who is enrolled under the provisions of the proposed law is prohibited from being concurrently enrolled under any other reemployment provisions under the current law.
 - e. When any retiree returns to active service with an employer pursuant to the provisions of the proposed law, the employing agency will, within thirty days thereafter, notify the board of trustees in writing of such employment, the date on which employment commenced, and the declaration authorizing the state of emergency or public health emergency which is the basis for the certification made pursuant to the proposed law. Upon termination, the agency will provide the same notice. In addition, the employing agency will also report to the retirement system within forty-five days after June thirtieth of each year, the names of all persons being paid by the employing agency and all persons having received a benefit pursuant to the proposed law, along with such individuals' social security numbers, their positions, their designations as part-time or full-time, and the amount of their earnings during the previous fiscal year ending on June thirtieth of the reporting year. Additionally, the employing agency will transmit a monthly contribution report pursuant to R.S. 11:888(A). Such monthly

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reports will be transmitted within thirty days of the last day of each month and will include the salary paid to each individual to whom the proposed law applies.

(3) LSERS:

- a. The proposed law is applicable to the employment of a retiree only while the state of emergency for which he is reemployed is in effect. Once the proposed law is no longer applicable, a retiree is subject to the other provisions of the current law.
- b. Any retiree who is enrolled under the provisions of the proposed law is prohibited from being concurrently enrolled under any other reemployment provisions under the current law
- c. When any retiree returns to active service pursuant to the provisions of the proposed law, the employing agency will notify the board of trustees in writing within ten days of such employment and the date on which employment began, and the declaration authorizing the state of emergency or public health emergency which is the basis for the certification made pursuant to the proposed law. Upon termination, the employing agency will also provide the board with information and notice thereof in writing. In addition to the notice required by the proposed law, the employing agency will also report to the retirement system within forty-five days after June thirtieth of each year the names of all retired persons being paid by the employing agency, their social security numbers, and the amounts of their earnings during the previous fiscal year ending June thirtieth of the reporting year. Additionally, the employing agency will transmit a monthly contribution report pursuant to R.S. 11:1201. Such monthly report will be transmitted by the fifteenth day after the end of each month and will set forth necessary salary and deduction information as required by the board of trustees.

(4) LSPRS:

- a. The proposed law is applicable to the employment of a retiree only until the date coincident with two hundred forty work hours after the expiration of the state of emergency for which he is reemployed. Once the proposed law is no longer applicable, a retiree is subject to the other provisions of the current law.
- b. When any retiree returns to active service with an employer pursuant to the provisions of the proposed law, the employing agency will, within thirty days thereafter, notify the board of trustees in writing of such employment, the name, address, and social security number of that retiree, the date on which employment commenced, and the declaration authorizing the state of emergency or public health emergency which is the basis for the certification made pursuant to the proposed law. Upon termination, the agency will provide the same notice.

Implications of the Proposed Changes

The immediate effect would be to allow departments of state government and other participating employers to rehire retirees without having their retirement benefits suspended during the reemployment period. Both employee and employer contributions will be required during the reemployment period. The member's contributions will be returned when he leaves reemployment; however, the employer contributions will remain in the fund. No service will be credited during the reemployment period.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

**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 slight increase in cost during a governor declared state of emergency, and for the duration of that emergency. The actuary's analysis is summarized below.

The proposed law allows a retiree to return to work during a state of emergency without a suspension of benefits.

The situation under the proposed law can be viewed from different perspectives:

- a. Consider a retiree who *would have returned to work* under the current law and had his benefits suspended or reduced. Contributions could have been required from both the employer and the employee, depending upon whether or not he becomes permanently employed. He could also have received an additional benefit based on his additional service and the compensation earned during the period of additional service. However, the increase in benefits after the reemployment period ends in most cases would not be as much as the reduction in benefits during the reemployment period.

If that individual returns to work under the proposed law, he will continue to receive his benefits. He will make employee contributions, but his employee contributions will be refunded when he leaves employment. His employer will also make contributions, but they will not be refunded. Based on the average salaries of active members in each of the four systems, and average benefit amounts paid to the retirees of each of the four systems, the amount of benefits received during the period of reemployment will generally be greater than the amount of contributions paid by their employers during the period of reemployment.

The following illustrations show additional net annual cost for each of the four systems based on sample benefit-salary-contribution combinations. The benefit payments increase somewhat, but the revenue also increases somewhat. This

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perspective results in a net increase cost to the systems in addition to the contributions being made by the employers of retirees who return to work.

The cost to participating employers (State and its agencies and local participating employers) is comprised of two components:

(1) The non-refundable employer contributions made during the period of re-employment (described as revenue to the systems) which is new in this substitute bill as compared to the original HB 36. If a participating employer does not re-hire any retirees, this component will be zero.

(2) The slight increase in the required employer contributions for all participating employers to the extent that there are net costs incurred by the retirement system, as described above.

Net Cost to LASERS	Sample Benefit-Salary Combination (\$)					
Retiree Annual Benefit	27,000	27,000	27,000	31,000	31,000	31,000
Rehire Annual Salary	50,000	60,000	70,000	50,000	60,000	70,000
Employer Contribution Rate and Dollar 40.6%	20,300	24,360	28,420	20,300	24,360	28,420
Net Annual Cost: Benefit minus Contribution	6,700	2,640	(1,420)	10,700	6,640	2,580

Net Cost to TRSL						
Retiree Annual Benefit	25,000	25,000	25,000	30,000	30,000	30,000
Rehire Annual Salary	50,000	60,000	70,000	50,000	60,000	70,000
Employer Contribution Rate and Dollar 25.6%	12,800	15,360	17,920	12,800	15,360	17,920
Net Annual Cost: Benefit minus Contribution	12,200	9,640	7,080	17,200	14,640	12,080

Net Cost to LSERS						
Retiree Annual Benefit	15,000	15,000	15,000	20,000	20,000	20,000
Rehire Annual Salary	21,000	23,000	25,000	21,000	23,000	25,000
Employer Contribution Rate and Dollar 28.7%	6,027	6,601	7,175	6,027	6,601	7,175
Net Annual Cost: Benefit minus Contribution	8,973	8,399	7,825	13,973	13,399	12,825

Net Cost to LSPRS						
Retiree Annual Benefit	60,000	60,000	60,000	75,000	75,000	75,000
Rehire Annual Salary	80,000	90,000	100,000	80,000	90,000	100,000
Employer Contribution Rate and Dollar 52.4%	41,920	47,160	52,400	41,920	47,160	52,400
Net Annual Cost: Benefit minus Contribution	18,080	12,840	7,600	33,080	27,840	22,600

- b. Alternatively, consider a retiree who *would not have returned to work* under the current law because his benefits may be suspended or reduced. If, under the proposed law, he returns to work, then his benefit is the same as if he had not returned to work, so there is no change in his benefit payments.

Under the proposed law more benefits would be paid to rehired retirees. For the relatively small number of retirees who potentially will return to work under the new law we estimate there will be a slight overall increase in cost to the retirement systems.

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 Actuary for the LLA has insufficient information about the rehire effects on health insurance coverage that may be in place for all the participating employers.

**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

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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.

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	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

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 from LASERS, TRSL, LSERS, and LSPRS (Agy Self Generated) in aggregate will increase slightly under the proposed law because slightly more benefits will be distributed each year under the proposed law than under current law. The expenditures may or may not continue in later years depending on declarations and durations of states of emergency.
- b. Expenditures from the State General Fund and the Local Funds in aggregate will increase slightly under the proposed law because employers will contribute slightly more per year with the enactment of the proposed law than they would have contributed under current law.

3. Revenues:

Revenues for LASERS, TRSL, LSERS, and LSPRS (Agy Self Generated) in aggregate will increase slightly each year if the proposed law is enacted because employers and employees will contribute slightly more per year under the proposed law than they would have contributed under current law.

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**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

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.

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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	See below	See below	See below	See below	See below	See below
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:

Local government employers will have more flexibility in hiring employees during declared emergencies; however, the impact on hiring practices, existing employees, and overall expenditures will vary by employer and the frequency of emergency declarations.

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 Christopher Keaton, 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

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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:

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.

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

HB 97 contains a retirement system benefit provision having an actuarial cost.

Some members of a State Retirement System could receive a larger benefit with the enactment of HB 97 than what they would have received without HB 97.

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 Second Extraordinary 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