2021 REGULAR SESSION
ACTUARIAL NOTE HB 28

<table>
<tr><td rowspan="2">House Bill 28 HLS 21RS-491
Original

Author: Representative Adams
Date: March 22, 2021
LLA Note HB 28.01

Organizations Affected:
Firefighters’ Retirement System

OR INCREASE APV</td><td colspan="2">This Note has been prepared by the Actuary for 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.</td></tr>
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<u>Bill Header:</u> RETIREMENT/FIREFIGHTERS: Provides relative to beneficiaries within the Firefighters' Retirement System.

<u>Cost Summary:</u>

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net Actuarial Present Values pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***[1]. 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.

<u>Estimated Actuarial Impact:</u>

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 Present Values Pertaining to:		**Net Actuarial Present Values**
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	Increase	0
State Government Entities	0	0
Total	Increase	Increase

<u>Bill Information</u>

Current Law

The current laws for the Firefighters' Retirement System (FRS) provisions affected by HB 28 are:

1. Current law provides that a beneficiary is a person designated to receive a pension, an annuity, a retirement allowance, or other benefit.

2. Current law authorizes a member to remove a former spouse as a beneficiary if the former spouse consents to the removal and the consent is evidenced by a certified court order issued in connection with a divorce.

3. Current law provides members of FRS with various options to receive the actuarial equivalent of their retirement allowance in a reduced retirement allowance payable throughout the life of a surviving beneficiary. A member may select an optional form of benefit only upon application for retirement, and that selection is irrevocable, except in the case of divorce.

   One of the options, Option 4, provides that benefits will be payable to any or all of the following persons: the member, the member's spouse, the member's child or children with a permanent mental or physical disability, or the member's dependent minor child or children that he nominates, provided such benefits, together with the reduced retirement

[1] **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note “<u>Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution</u>”).

allowance, will be certified by the actuary to be of equivalent value to his retirement allowance and approved by the board of trustees.

Proposed Law

The following provisions are contained in HB 28:

1. HB 28 expands the definition of beneficiary to include a juridical person or estate administrator designated to receive a pension, an annuity, a retirement allowance, or other benefit.

2. HB 28 authorizes a retiree to remove any named beneficiary if no payments have been made to the beneficiary and the beneficiary does not have a community property interest relative to FRS. The benefit payable to any retiree who removes a named beneficiary will be restored to the maximum amount payable under R.S. 11:2256(A)(4), less any actuarial reduction required to account for the time that the person was previously named as a beneficiary.

3. HB 28 authorizes a retiree of FRS to add a beneficiary of any benefit payable from this system to which he is entitled, without changing the option originally selected, if the benefit is reduced to account for any adverse actuarial impact of adding the beneficiary.

4. HB 28 authorizes payment of benefits to an estate administrator on behalf of a spouse or child if the spouse or child is named as a legatee and the testament contains a provision for informal acceptance. FRS will need to receive a certified copy of the testament. Such benefit or designated portion that is paid to the estate administrator will not be treated as an addition to the estate assets and will not be accessible to creditors for payment of any estate debt or the estate administrator's fees. The estate administrator will notify the system in writing immediately upon the death of any legatee receiving a benefit. If the payment of a benefit is contested by any party, FRS will withhold the disputed payment, institute a concursus action, and deposit the disputed benefit into registry of the court until there is a final binding legal agreement or judgement regarding the proper payment.

5. HB 28 provides that if a member names his child or children with a permanent mental or physical disability to receive a benefit under Option 4, the medical determination of such disability shall be performed in immediate proximity and prior to the effective date of the members date of retirement or DROP. If the member requests that FRS perform the medical determination, then subsequently does not allocate at least half of his reduced benefit to the child or children pursuant to Option 4, the member will pay the cost of the medical determination by having the cost deducted from his retirement benefit.

Implications of the Proposed Changes

HB 28 provides more latitude in naming beneficiaries, and making beneficiary changes after DROP or retirement payments have started.

Expanding the definition of beneficiary to include a juridical person or estate administrator provides opportunities to provide ongoing support in special situations. This may not add to the cost of providing the benefit if appropriate actuarial reductions can be determined and applied. However, these special situations will probably add to the ongoing administrative costs of following up on such payments.

Furthermore, allowing expanded opportunities to change beneficiaries after a person has retired or entered the DROP exposes FRS to significant anti-selection. As members and beneficiaries age, their health and medical situations change. Even requiring actuarial adjustments in connection with such changes is unlikely to adequately anticipate cost increases.

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 present value 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.

HB 28 makes several changes to the current law. However, two changes are likely to increase the cost for the system:

(a) allowing members to remove any named beneficiary who does not have a community property interest, and

(b) allowing a retiree to add a beneficiary of any benefit payable from FRS without changing the option he originally selected.

While the proposed bill provides for an actuarial reduction in the case of removing a named beneficiary as described above and provides for a reduction in the benefit to account for any "adverse actuarial impact" related to the addition of a beneficiary as described above, it can be expected that there will be cases where these reductions will not offset the increase in the costs due to anti-selection. Retirees who have a beneficiary in poor health are more likely to revert to a maximum benefit or replace a beneficiary. Also, retirees who are in poor health may become more sensitive to whether their named beneficiary is still the one they really want, and may, therefore, be inclined to make a change as provided in HB 28. Thus, some members may derive greater benefits under HB 28 than without HB 28. The impact of such change in a beneficiary would be even greater if the retiree was in a poor health himself.

The general mortality tables employed in the calculations of the actuarial impact include a cross-section of health status, some in good health and some in poor health. However, named beneficiaries that are removed by a retiree and named beneficiaries are added by a retiree, as permitted under HB 28, are not expected to exhibit that same cross-section. Therefore, even though the actuarial impact is said to be "actuarially equivalent", the removal or addition of a named beneficiary are likely to exhibit anti-selection. The system is likely to experience cost increases.

Actuarial losses arising from members electing to remove or add a named beneficiary are amortized over time and financed by Local Funds. It is assumed that these losses are funded by increases in the Local Funds' contribution requirements, as compared to what they would be in the absence of HB 28.

The current law provides that for the removal of *a former spouse*, the benefits payable shall be restored to the maximum amount payable under R.S. 11:2256(A)(4), less any actuarial reduction required to account for the time that the person was previously named as a beneficiary. Similarly, the proposed bill provides for the removal of *any named beneficiary* who does not have a community property interest, the benefit payable shall be restored to the maximum amount payable under R.S. 11:2256(A)(4), less any actuarial reduction required to account for the time that the person was previously named as a beneficiary. It is presumed that such restorations would also recognize any prior post-employment benefit increases rather than restorations back to the original benefits prior to any such increases.

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 for post-retirement medical insurance subsidies provided to retirees is not affected by any of the provisions contained in HB 28. Retiree medical insurance subsidies are adopted by the local employers and are not affected by the provisions of this proposed bill.

B. <u>Actuarial Data, Methods and Assumptions</u>
(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. <u>Actuarial Caveat</u>
(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. <u>Estimated Fiscal Impact – Retirement Systems</u>
(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	2021-22	2022-23	2023-24	2024-25	2025-26	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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 in 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 FRS (Agy Self-Generated) are expected to increase since larger pension benefits may be paid to the members electing to change their optional form of benefits.

   b. Expenditures by FRS (Agy Self-Generated) are also expected to increase since there will be some administrative costs related to the medical determinations pursuant to option 4.

   c. Expenditures from the Local Funds are expected to increase slightly over time because amortization payments would be required due to actuarial losses that will likely arise, as described in section I(A)(1) above.

3. Revenues:

   FRS revenues (Agy Self-Generated) are expected to increase slightly over time because amortization payments would be required due to actuarial losses expected, as described in section I(A)(1) above.

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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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 (savings) relating to administrative expenditures 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 administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost 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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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 administrative 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 cost (savings) relating to administrative expenditures 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 Chris Keaton, Legislative Fiscal Officer)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost 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	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**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	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**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:

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

3. Revenues:

   a. 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:

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have 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

[X] HB 28 contains a retirement system benefit provision having an actuarial cost.

Some members of the Firefighters' Retirement System could receive a larger benefit with the enactment of HB 28 than what they would have received without HB 28.

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 2021 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 Means**