

**2021 REGULAR SESSION
ACTUARIAL NOTE HB 19**

<p>House Bill 19 HLS 21RS-199 Original</p> <p>Author: Representative Mack Date: February 26, 2021 LLA Note HB 19.01</p>	<p>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.</p>	
<p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>OR INCREASE APV</p>	 James J. Rizzo, ASA, EA, MAAA Senior Consultant & Actuary Gabriel, Roeder, Smith & Company	 Piotr Krekora, ASA, EA, MAAA, PhD Senior Consultant & Actuary Gabriel, Roeder, Smith & Company

Bill Header: RETIREMENT/STATE EMPS: Provides relative to the selection of certain optional survivor benefits for members of the Louisiana State 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 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.

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 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	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

Pre-retirement Death Benefits: Current law provides for payments of survivor benefits to the spouse, minor children, handicapped children, and mentally disabled children of a member of the Louisiana State Employees' Retirement System (LASERS) who meets certain criteria and who dies prior to retirement.

With respect to a surviving spouse who has custody of a mentally disabled child, current law provides that:

1. If the member was first hired before January 1, 2011, the surviving spouse receives the greater of 25% of the deceased member's average compensation or \$100, and the surviving mentally disabled child receives the greater of 50% of the deceased member's average compensation or \$200.

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

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2. If the member was first hired on or after January 1, 2011, the surviving spouse receives the greater of 50% of the benefit to which the member would have been entitled if he had retired on the date of his death or \$600, and the surviving mentally disabled child receives 50% of the spouse's benefit.

Retirement Benefits: Current law provides members of LASERS with various options to receive an actuarially reduced retirement benefit payable throughout his life and the life of a surviving beneficiary. A member may select an option only upon application for DROP or retirement, and that selection is irrevocable. One of the options, Option 2-B, provides that a member's reduced retirement benefit continues throughout the life of the person he nominated by written designation and, upon the death of that designated person, the reduced benefit continues throughout the life of his mentally handicapped child or children.

Proposed Law

Pre-retirement Death Benefits: HB 19 provides that any member with a mentally disabled child or children may elect, in lieu of the benefits otherwise provided for in the current law, that survivor benefits be calculated and paid as if the member retired immediately prior to his death and selected Option 2-B.

The election must be duly acknowledged and filed with the board of trustees and may be made at any time prior to the member's death, retirement, or participation in the Deferred Retirement Option Plan (DROP).

If the member is married, the designated beneficiary for the election must be his spouse unless the spouse has consented to the contrary in writing before a notary public or the spouse cannot be located and the member submits an original affidavit, signed by him before a notary public, that evidences good faith efforts to locate the spouse.

The election is irrevocable. However, the election terminates and survivor benefits are payable as otherwise provided for in the current law upon the earlier of:

1. The death of the mentally disabled child or children.
2. The member's retirement or participation in the DROP.

Implications of the Proposed Changes

Pre-retirement Death Benefits: HB 19 will allow a member who has a mentally disabled child to elect a survivor benefit under Option 2-B, which will be applicable to his survivors if he dies prior to retirement, instead of the default survivor benefits otherwise provided for in the current law. Presumably this election is more likely to be made by members for whom the survivor benefit would be greater than that provided under current law.

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 19 will increase the benefits payable to some survivors of members of LASERS with a mentally disabled child or children, since they may be eligible to receive a higher monthly death benefit. They will likely elect to do so when the death benefits their survivors can receive are greater than the benefits they would otherwise receive under current law if the member dies prior to retirement. HB 19 will likely affect some retirees and their survivors; and the system will therefore pay greater benefits in those instances.

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 protection provided to retirees is not affected by an increase in death benefits received by some of the survivors.

**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.

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**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	2021-22	2022-23	2023-24	2024-25	2025-26	5 Year Total
State General Fund	\$ 0	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	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	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

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 LASERS (Agy Self-Generated) will likely increase due to slightly greater death benefits expected to be paid.
- b. Expenditures from the State General Fund will likely increase slightly due to employer contribution requirements increasing to accommodate the additional death benefits paid.

3. Revenues:

LASERS revenues (Agy Self-Generated) will likely increase slightly due to employer contribution requirements increasing to accommodate the additional death benefits paid.

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

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

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OPEB Fiscal Cost: Table B

EXPENDITURES	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.

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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:

N/A - This bill only impacts state government, and therefore, has no local government impact. The Local Government Services section of the LLA does not review state government bills.

3. Revenues:

N/A - This bill only impacts state government, and therefore, has no local government impact. The Local Government Services section of the LLA does not review state government bills.

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.

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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:

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:

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;

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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 19 contains a retirement system benefit provision having an actuarial cost.

Some members (surviving beneficiaries) of the Louisiana State Employees' Retirement System could receive a larger benefit with the enactment of HB 19 than what they would have received without HB 19.

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.

<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