



**OFFICE OF LEGISLATIVE AUDITOR
2022 REGULAR SESSION
ACTUARIAL NOTE**

House Bill 19 HLS 22RS-287
Original
Author: DeVillier
LLA Note HB 19.01

Date: March 4, 2022
Organizations Affected: LASERS, State Fire Marshall
OR INCREASE APV

Bill Header: RETIREMENT/STATE EMPS: Provides relative to membership in the Louisiana State Employees' Retirement System's Hazardous Duty Services Plan.

Purpose of Bill: This bill moves employees of the Office of State Fire Marshal who are Firefighter I certified and who provide emergency response or conduct fire and emergency training from the Louisiana State Employees' Retirement System (LASERS) Rank and File sub-plan to the LASERS Hazardous Duty sub-plan. There are currently between 4 and 11 participants who could become eligible for additional benefits under this bill.

Cost Summary¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below. An increase in actuarial present values (actuarial impact) and an increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in actuarial present values (actuarial impact) or a decrease in expenditures or revenues (fiscal impact) are denoted by "Decrease" or a negative number.

In the following table, "Net Actuarial Present Values" pertain to estimated changes in the *net actuarial present value of future benefit payments and administrative expenses incurred by a retirement system or associated with an OPEB plan*. A more detailed explanation of the information presented in this table can be found in Section I: Actuarial Impact on Retirement Systems and OPEB.

Change in Net Actuarial Present Values Pertaining to:	
The Retirement Systems	Increase
Other Post-employment Benefits (OPEB)	Increase
Total	Increase

This bill is subject to 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.

"Net Fiscal Costs" 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.

In the following table, expenditures and revenues only include cash flows to or from the affected retirement system or OPEB plan, (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation of the information presented in this table can be found in Section II: Fiscal Impact on Retirement Systems and OPEB.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	0	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	0	0
State Government Entities	Increase	0
Total	Increase	Increase

From time to time, retirement legislation is proposed that affects administrative expenditures and revenues for state and local government entities associated with implementing the proposed legislation (other than contribution changes included in the above table). This information, provided by the LLA Local Government Services or the Legislative Fiscal Office, is summarized in the following table. A more detailed explanation of the information presented in this table can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
Local Government Entities	\$ 0	\$ 0
State Government Entities	0	0
Total	\$ 0	\$ 0

¹ 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").

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.

Kenneth J. "Kenny" Herbold, ASA, EA, MAAA
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Louisiana Legislative Auditor

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I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

This section of the actuarial note pertains to changes in the net actuarial present value of expected future benefit payments and administrative expenses incurred by the retirement systems or associated with an OPEB plan.

1. Retirement Systems

The net change in actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems from the proposed legislation is estimated to increase.

The following table compares the major benefit provisions for the Rank and File to the major benefit provisions of the Hazardous Duty sub plan.

Benefit Provision	Rank and File Members²	Hazardous Duty Members³
Benefit Multiplier	2.5% x service	3 1/3% x service, if last 10 years of service was earned in a hazardous duty position
Normal Retirement Age	Age 62 with 5 years of service	Age 55 with 12 years of service, or Any age with 25 years of service
Line of Duty Disability Benefit	Accrued retirement benefit without actuarial reduction	75% x final average compensation
Employee Contribution Rate	8.0%	9.5%

The Office of State Fire Marshall has identified up to 11 current participants who could be impacted by the provisions of this bill. Currently four members would be immediately eligible for participation in the Hazardous Duty sub plan with an additional seven who could become eligible if they attain Firefighter I certified status and provide emergency response or conduct fire and emergency training. Therefore, actuarial costs will increase because benefits provided under the Hazardous Duty sub-plan are larger than provided under the Rank and File sub-plan.

2. Other Post-employment Benefits (OPEB)

The net change in actuarial present value of expected future benefits and administrative expenses associated with OPEB, including retiree health insurance premiums, from the proposed legislation is estimated to increase.

Members who will move from the Rank and File to the Hazardous Duty sub plan can be expected to retire earlier than they would have otherwise. Therefore, they would collect OPEB benefits sooner and for a longer period of time.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

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 only include cash flows to or from the affected retirement system or OPEB plan, (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation.

A. Estimated Fiscal Impact – Retirement Systems

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.

Table A: Retirement System Fiscal Cost

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	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

² Rank and File Members first employed on or after July 1, 2015.

³ Hazardous Duty Members first employed on or after January 1, 2011.

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

1. Expenditures:

- a. The Office of State Fire Marshall employer contribution requirements would increase from 40.4% to 46.1% of participant payroll for eligible employees (based on the minimum required contribution for 2023 FYE). This increase in expenditures is reflected in the State General Fund line above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary and are not differentiated in the table.
- b. LASERS’ expenditures will increase because benefit payments will be higher under this bill. None of the eligible employees are retirement eligible within the next 5 fiscal years, however, other benefits could become payable upon death or disability.
- c. LASERS’ expenditures for administration will increase in the first year of the benefit change as it incurs costs for software modifications to existing computer programs to identify the members specified in the bill and transfer them to the Hazardous Duty Plan. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.

2. Revenues:

LASERS’ revenues (Agy Self-Generated) will increase because employer and employee contribution requirements would increase.

B. Estimated Fiscal Impact – OPEB

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.

Table B: OPEB Fiscal Cost

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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 OPEB related fiscal costs and revenues during the five-year measurement period.

1. Expenditures:

Expenditures from the General Fund would increase because some members employed by the Office of State Fire Marshall may retire earlier under this bill than under current law and employer-provided insurance premiums for retirees would increase. However, none of the eligible employees are retirement eligible within the next 5 fiscal years.

2. Revenues:

No measurable effect.

**III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES
(Prepared by LLA Local Government Services)**

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

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Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)

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.

Table C: Fiscal Costs for Local Government Entities

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

This section of the actuarial note pertains to annual fiscal cost (savings) related 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)

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.

Table D: Fiscal Costs for State Government Entities

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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.

1. 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.

2. Revenues:

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

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VI. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the Legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

There is nothing in the proposed legislation that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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. Risk disclosures otherwise required by ASOP No. 51 do not apply to this actuarial note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VII. LEGISLATIVE PROCEDURAL ITEMS

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

This bill contains a retirement system benefit provision having an actuarial cost.

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

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 2022 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