OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE

House Bill 38 HLS 24RS-295	**Date: March 8, 2024**
Original	**Organizations Affected: MPERS**
Author: Freeman	
LLA Note HB 38.01	**OR NO IMPACT APV**

<u>Bill Header:</u> RETIREMENT/MUNICIPAL POL: Provides for payment of the unfunded accrued liability of the Municipal Police Employees' Retirement System.

<u>Purpose of Bill:</u> A participating employer which is deemed to have partially dissolved its police department is liable for the payment of a pro rata share of the system's unfunded accrued liability. Under present law, one of the criteria is a reduction of at least 50 employees. This bill changes this criterion to a reduction of 100 employees.

<u>Cost Summary[1]:</u> The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

This bill does not change the timing or amount of benefits payable, nor does it change the total employer contributions received by MPERS. It changes the allocation of employer contributions between participating employers. This bill would change the trigger necessary for a participating employer to be deemed to have partially dissolved for the 5 largest of the 168 participating employers in MPERS and would have no impact on the trigger for the remaining 163 participating employers.

The expected change in the ***net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems*** from the proposed law is estimated to be **<u>$0</u>**. A more detailed explanation can be found in Section I: <u>Actuarial Impact on Retirement Systems</u>.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (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 can be found in Section II: <u>Fiscal Impact on Retirement Systems</u>.

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

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: <u>Fiscal Impact on Local Government Entities</u> and Section IV: <u>Fiscal Impact on State Government Entities</u>.

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 requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "**<u>Information Pertaining to La. Const. Art. X, §29(F)</u>**").

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** **Director of Actuarial Services** **Louisiana Legislative Auditor**

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

This bill does not change the timing or amount of benefits payable. It changes the allocation of employer contributions between participating employers.

For any plan that is not fully funded, annual contributions consist of a portion of costs that will vary based on the number of participating employees (normal cost) and a portion of costs that can be considered “fixed” because it does not vary based on the number of participating employees (e.g., amortization of the unfunded accrued liability, UAL). The burden for this fixed cost is shared across all participating employers in proportion to that employer’s covered payroll compared to the total covered payroll for the plan (i.e. as a “percent of payroll”). In a plan where the ratio of participating employees is relatively stable across employers, this approach will serve as a reasonable approximation of each participating employer’s relative burden of the UAL. When one employer experiences a “significant” reduction in their workforce, this approach shifts the relative burden away from the employer with the reduction and places it on all other participating employers.

Under present law, police departments are required to pay a portion of the unfunded accrued liability in addition to the amount included in the annual employer contribution rate when they are deemed to have partially dissolved. A partial dissolution is deemed to occur when a department reduces its number of participating employees by the lesser of 30% or more (subject to additional limitations), or by 50 or more participating employees. The purpose of this approach is to recognize that some portion of the UAL continues to be attributable to prior employees of such an employer, therefore it is appropriate for them to continue to be responsible for a larger share of this burden than their current payroll levels would otherwise indicate.

This bill increases the threshold for deemed partial dissolutions from 50 participating employees to 100. The table below outlines the number of employers required to trigger a partial dissolution, by employer “size” (i.e. number of active employees) under present and proposed law:

# of Participating Employees as of June 30, 2023	**# of Employers**	**Partial Dissolution Trigger** (Lesser of 30% or 50/100 Participating Employees) **Present Law**	**Proposed Law**
Less than 167	163	30%	30%
Between 167 and 333	2	50	30%
More than 333	3	50	100

As illustrated above, the vast majority of participating employers are too small to be affected by the proposed changes. It is worth noting that during the past 10 years, 23 employers were deemed to have partial dissolutions a total of 26 times. Of those, 23 have been due to a reduction of less than 50 people and are a result of a smaller employer triggering the 30% reduction threshold while 3 have been due to a reduction of more than 50 participating employees. Only 1 of the 3 was a result of a reduction of more than 100 participating employees. This occurred at a time when the largest employer had more than 1,100 participating employees, which decreased to less than 1,000 the following year. As of June 30, 2023, the three largest employers had between approximately 500 and 890 participating employees.

Increasing the trigger from 50 to 100 participating employees will make it significantly less likely that the 5 employers impacted by these changes will be deemed to experience a partial dissolution. As noted above, if a partial dissolution is not deemed to occur when one of these employers experiences a reduction in their participating employees, the relative share of the cost of funding the existing UAL shifts to the smaller participating employers via an increase in the employer contribution rate.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (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 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.

The proposed legislation is not expected to have any measurable effects on retirement related fiscal costs and revenues during the five-year measurement period. While the bill relaxes criteria for deeming a police department to have experienced a partial dissolution, the combined amount of contributions remitted by employers and received by the system is not expected to be affected.

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 Section II.

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

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

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Section II.

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

V. 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.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

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

No member of a 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 Sections II, III, and IV for the first three years following the 2024 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 bill is dual referred to: **Dual Referral: Appropriations**
☐ 13.5.2 Applies to Senate or House Instruments If an annual tax or fee change ≥ \$500,000, then 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 is an increase in annual fees and taxes ≥ \$500,000, then bill is dual referred to: **Dual Referral: Ways and Means**