



**OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE**

Senate Bill 405 SLS 24RS-715
Engrossed
Author: Kleinpeter
LLA Note SB 405.02

Date: April 4, 2024
Organizations Affected: LSPRF
EG INCREASE APV

Bill Header: SHERIFFS PEN/RELIEF FUND. To provide for retirees returning to positions covered by the Sheriffs' Pension and Relief Retirement Fund.

Purpose of Bill: Proposed law temporarily permits retired members who return to full-time service to rescind their retirement election and reenter the plan as an active member as if they did not previously elect retirement, if they repay all benefits received with interest.

Cost Summary¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

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 an **increase**. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

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: Fiscal Impact on Retirement Systems.

| Five Year Net Fiscal Costs Pertaining to: | <u>Expenditures</u> | <u>Revenues</u> |
|--|----------------------------|------------------------|
| The Retirement Systems | See Section II | Increase |
| Local Government Entities | 0 | 0 |
| State Government Entities | 0 | 0 |
| Total | See Section II | Increase |

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

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

**2024 REGULAR SESSION
ACTUARIAL NOTE SB 405**

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.

It is not possible to calculate the impact of the proposed law with any reasonable accuracy. However, the net change in actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems from the proposed law is estimated to be an increase.

Current law requires that when a retired member returns to full-time service their retirement benefits will be suspended during employment and they will accrue a supplemental benefit based on their pay and service during reemployment. Proposed law temporarily permits such an individual to instead rescind their retirement election and reenter the plan as an active member as if they did not previously elect retirement, if they repay all benefits received with interest. For any individual who makes this election, they will necessarily receive a larger benefit upon re-retirement under the proposed law than under current law.

It is unclear how prior retirees who currently have their benefit suspended because they have returned to full-time service would be treated under proposed law. It is possible these individuals could potentially take advantage of this provision by electing to retire again, then once again returns to full-time service and rescind both retirement elections. This would increase the potential pool of members who can take advantage of this provision, further increasing total costs.

In addition, there is no requirement that an individual utilizing this provision elect the same benefit payment option at their next retirement date. While benefit payment options are calculated on an actuarially equivalent basis, this only holds true across large groups of people, not in an individual case. Therefore, someone could elect an alternative benefit payment option that is more advantageous given their personal circumstances and therefore be more expensive for the retirement system. For example, if someone originally elected a joint and survivor payment option and the beneficiary has subsequently become ill, the member could change beneficiaries or elect a life only payment option.

The overall impact of the proposed law is limited by two primary factors. First, the option provided under proposed law will end December 31, 2027, therefore limiting this option primarily to those who have already retired or will retire in the very near future. Second, the repayment of all previously received benefits must be paid in a single lump sum and with interest from the time of original payment. It is likely to be difficult for members retired for a significant length of time to be able to afford such a substantial payment.

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.

Table A: Retirement System Fiscal Cost

| Expenditures | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</u> | <u>2028-29</u> | <u>5-Year Total</u> |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self-Generated | Decrease | See Below | See Below | See Below | Increase | See Below |
| 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 | Decrease | See Below | See Below | See Below | Increase | See Below |

| Revenues | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</u> | <u>2028-29</u> | <u>5-Year Total</u> |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self-Generated | Increase | Increase | Increase | Increase | 0 | 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 | \$ 0 | Increase |

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

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

1. Expenditures:
 - a. Agy Self-Generated expenditures are expected to decrease in FY 25 because there are likely to be some individuals who would not return to full-time service under current law but would under proposed law, therefore benefit payments would decrease.
 - b. Whether benefit payments (Agy Self-Generated expenditures) increase or decrease for FYs 26-28 will depend on the number of member who take advantage of this opportunity, decreasing benefit payments, versus those who have subsequently retired with larger benefits, increasing benefit payments.
 - c. For FY 29, the temporary provision will no longer be available so benefit payments are expected to be larger as those who previously took advantage of proposed law retire with larger benefits than under current law.
 - d. It is not possible to accurately predict the net effect across the next five fiscal years.

**2024 REGULAR SESSION
ACTUARIAL NOTE SB 405**

2. Revenues:

- a. Agy Self-Generated revenue will increase to the extent members elect to utilize this provision and make lump sum payments.
- b. Proposed law could increase total contributions to the extent positions are filled by higher paid retirees returning to full-time service, but any difference is expected to be immaterial.

**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 Table A.

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 Table A.

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.

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.

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;

**2024 REGULAR SESSION
ACTUARIAL NOTE SB 405**

5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits at rates that differ from what was 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.

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.

Some members of a retirement system could 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

- 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
- 13.5.2 Applies to Senate or House Instruments
If an annual tax or fee change \geq \$500,000, then bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

House

- 6.8F Applies to Senate or House Instruments
If an annual General Fund fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Appropriations
- 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes \geq \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means