



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

House Bill 963 HLS 24RS-2125 Reengrossed Author: Dewitt LLA Note HB 963.02	Date: April 17, 2024 Organizations Affected: MPERS RE INCREASE APV
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Bill Header: RETIREMENT/MUNICIPAL POL: Provides relative to reemployment of retirees in the Municipal Police Employees' Retirement System

Purpose of Bill: This bill makes several changes related to the reemployment of certain retirees

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

This bill allows certain active employees to retire and return-to-work without a suspension of retiree benefit payments, which encourages these employees to begin receiving their retirement benefit earlier than they otherwise would under present law. This tends to increase benefit payments and total liability. In addition, not requiring employers or employees to make contributions on the rehired retirees decreases the current costs to the employer of rehiring these individuals, thereby incentivizing employers to utilize such rehires.

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	Increase	Increase
Local Government Entities	Increase	0
State Government Entities	0	0
Total	Increase	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

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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.

Present law has different requirements regarding the suspension of benefits for retirees who are reemployed by an MPERS' employer.

- 1) Retirees who return to full-time employment in a position defined as an employee (i.e. generally as a police officer) must have their benefits suspended and will accrue a supplemental benefit payable upon re-retirement.
- 2) Retirees who return to work as either a) a police officer employed for 50 hours or less during a month or b) an elected official other than a police chief, must have their benefit suspended during any employment that occurs during the 60 days following the effective date of their retirement.
- 3) Retirees who return to work but are not classified as employees must have their benefit suspended during any employment that occurs during the 12 months following the effective date of their retirement.

When retirees are permitted to return-to-work without a suspension of retiree benefit payments, participants are incentivized to retire earlier than they otherwise might knowing they can immediately (or shortly thereafter) return to work and receive both their retirement benefits and active employment pay. This increases total expected benefit payments and total liability because although the benefit may be slightly lower the total time a benefit is paid offsets any savings from a lower benefit amount. Employer contribution requirements also increase because there is a shorter period over which to fund the retirement benefit. Further, if employer contributions are not required but otherwise would have been for a similarly situated person who is not a reemployed retiree, the employer contribution rate will increase because payments for certain unfunded accrued liabilities must be spread over a smaller payroll base.

Proposed law will increase the period during which benefits will be suspended for group 2 from 60 to 90 days. This increased period is sufficiently small that it is not likely to have a measurable impact on participant behavior, but will serve to slightly decrease total benefits paid for retirees in these positions.

Proposed law will decrease the period during which benefits will be suspended for group 3 from 12 months to 90 days. This decrease is likely to have a material impact on individual behavior for those who are in a position to transfer from an MPERS covered position to a position with the same employer that is not covered by MPERS. This change is likely to lower the expected retirement age for such an employee, increasing total costs as described above.

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	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	<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	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

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 will 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 increase because decreasing the period during which retirees who return to employment with an employer in a non-covered position must have their benefits suspended will increase the likelihood of retiring earlier (under proposed law) than with the suspension of benefits rules in place (under current law) and therefore increase expected benefit payments. The reduction in expenditures associated with the increase in suspension period for other retirees is not likely to be sufficient to offset this increase.
 - b. An increase in expected benefit payments, and the shorter period over which to fund retirement benefits, will necessarily result in higher expected employer contributions. Increases in employer contributions are reflected in the Local Funds line above.

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2. Revenues:

Changes in retirement contributions identified as changes in Local Fund expenditures have corresponding changes in Agy Self-Generated revenues.

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.

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.

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;

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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 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 the Municipal Police Employees' Retirement Systems 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