



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

House Bill 30 HLS 24RS-174 Reengrossed Author: Bagley LLA Note HB 30.03	Date: May 21, 2024 Organizations Affected: LASERS RE +131,000,000 APV
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Bill Header: RETIREMENT/STATE EMPS: Provides relative to retirement eligibility in the Louisiana State Employees' Retirement System.

Purpose of Bill: This bill provides that any member of the Louisiana State Employees' Retirement System (LASERS), regardless of their date of first employment or age, will be eligible to retire without actuarial reduction if they have 27 years of service.

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

This bill provides for earlier retirement eligibility for all employees, which will increase the benefit payments and total liability.

The expected change in the *net actuarial present value of accrued liabilities incurred by the retirement systems* from the proposed law is estimated to be an increase of \$131,000,000. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

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 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	\$ 93,600,000
Local Government Entities	0	0
State Government Entities	93,600,000	0
Total	Increase	\$ 93,600,000

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	See Section IV	See Section IV
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
Director of Actuarial Services
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.

This bill provides for earlier retirement eligibility for many members of numerous subplans of LASERS, as compared to present law. Currently, the affected members have varying eligibility conditions for retirement, depending on their subplan and other factors such as date of hire. Under this bill, they would become eligible to retire after attaining 27 years of service, regardless of age, in addition to the various other eligibility conditions.

This bill would accelerate eligibility for retirement for the majority of current and future participants. Even though the monthly amount of pension benefit is generally lower when retiring earlier, the benefits are paid for a longer period of time and must be funded over a shorter period of time. The net result is a cost to the plan and to the participating employers.

Based on the participant data and retirement assumptions used in the June 30, 2023 actuarial valuation, the actuary for the system estimates that, as a result of this bill, the system’s UAL would increase by \$131 million. A 10-year amortization of the increase in UAL would add approximately \$18.2 million to the employer contribution for that 10-year period. In addition, there would be a \$5.2 million ongoing increase in the Normal Cost, resulting in the employer contribution for the year ending June 30, 2026 increasing by approximately \$23.4 million, or 1.1% of payroll.

This estimate assumes no change in retirement patterns. Therefore, the increase reflects the ability to receive unreduced retirement at an earlier date, as well as higher early retirement benefits for those who retire prior to their normal retirement date. To the extent retirement patterns change related to earlier retirement eligibility, the normal cost component is likely to increase once that participant behavior is reflected in updated assumptions.

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	2024-25	2025-26	2026-27	2027-28	2028-29	5-Year Total
State General Fund	\$ 0	\$ 23,400,000	\$ 23,400,000	\$ 23,400,000	\$ 23,400,000	\$ 93,600,000
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	2024-25	2025-26	2026-27	2027-28	2028-29	5-Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	0	23,400,000	23,400,000	23,400,000	23,400,000	93,600,000
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	23,400,000	23,400,000	23,400,000	23,400,000	93,600,000

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 retirees will be eligible to receive an unreduced retirement at an earlier date, as well as higher early retirement benefits for those who retire prior to their normal retirement date. This will occur without regard to a change in expected retirement patterns.
 - b. An increase in expected benefit payments will necessarily result in higher liabilities and expected employer contributions. Increases in employer contributions are reflected in the State General Funds line above. An increase in contribution requirement is expected to be approximately \$23.4 million, based on estimates prepared by the actuary for the system using June 30, 2023 participant data and retirement assumptions. The resulting increase in the actuarial accrued liability is approximately \$131 million, which would be amortized over 10 years at approximately \$18.2 million, and the Normal Cost would increase by approximately \$5.2 million per year.

2. Revenues:

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

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**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.

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
(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.

The proposed legislation may lead to a decrease in personal income tax collected and an increase expenditure for state agencies for group insurance premium payments.

Impact on personal income tax collections

To the extent there is a significant increase in members retiring earlier as a result of proposed legislation and they receive no additional taxable income, personal income tax collected by the state may decrease as LASERS pension payments are exempt from state income tax whereas income earned as an active employee is not exempt. **This impact assumes the state does not hire replacement personnel and that the retirees do not reenter the workforce following retirement.**

As an estimate of magnitude, LLA has identified about 1,900 individuals who would be eligible for an earlier retirement date under the bill with an average salary of \$73,500. Assuming an effective tax rate of 2.8%, personal income tax would decrease by about \$4 M annually if all eligible employees retired earlier than current law and were not subsequently employed in the state. Actual impacts would depend on the individual circumstances and timing of those changing their behavior due to the bill.

Impact on employer group insurance premium payments

There may be an increase expenditure for state agencies for group insurance premium payments. For both active employees and retirees, the employer pays 75% of the insurance premium for the enrollee. However, there is a difference in the employer's share for dependents of the enrollee. For active employees, the employer pays 50% of the dependents' insurance premium, while for retirees, the employer pays 75% of the dependents' insurance premium. Insurance premiums for retirees are also higher than those for active employees. Therefore, the higher premiums for retirees, coupled with the increased employer share for dependents, will result in employers having to allocate more funds to cover the insurance costs for retired employees and their dependents.

Employer Share of Insurance Premium	Active Employees	Retiree
Insurance Premium – Enrollee	75%	75%
Insurance Premium – Dependents of Enrollee	50%	75%

For illustrative purposes, the state's share for an active employee enrolled in the Magnolia Local Plus plan will increase from \$653.84 to \$1,409.12 each month when the enrollee retires. If a spouse is included on the plan with the enrollee, the state's share will increase each month from \$1,143.80 to \$2,165.14.

Status	Active	Retired	Monthly Increase	Annual Increase
Enrollee Only	\$653.84	\$1,409.12	\$755.28	\$9,063.36
Enrollee + 1 Dependent	\$1,143.80	\$2,165.14	\$1,021.34	\$12,256.08

As a result, state expenditures for group insurance premiums increase when enrollees retire. Using the illustration above, for an enrollee-only, the annual increase to the state is \$9,063.36. For an enrollee and a spouse, the increase is \$12,256.08 each year.

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 (PR SAC). 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.

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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.

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;
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.

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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 Louisiana State Employees' 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