


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 38**

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| <p>House Bill 38 HLS 13RS-320 Engrossed with Senate Retirement Committee Amendment #1982</p> <p>Author: Representative Hunter Greene Date: May 15, 2013</p> <p>LLA Note HB 38.03</p> <p>Organizations Affected: Registrars of Voters Employees’ Retirement System</p> <p>EG1 -\$960,000 FC LF EX</p> | <p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 38 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div> |
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Bill Header: RETIREMENT/REGISTR VOTER: Provides relative to employee contributions in the Registrars of Voters Employees’ Retirement System

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by “Increase” or a positive number. Savings are denoted by “Decrease” or a negative number.

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|--|--------------|
| Actuarial Cost/(Savings) to Retirement Systems and OGB | \$ 150,000 |
| Total Five Year Fiscal Cost | |
| Expenditures | \$ (960,000) |
| Revenues | \$ 140,000 |

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by “Increase” or a positive number. Savings are denoted by “Decrease” or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

| Actuarial Cost/(Savings) to: | <u>Change in the Actuarial Present Value</u> |
|---|---|
| All Louisiana Public Retirement Systems | \$ 150,000 |
| Other Post Retirement Benefits | \$ 0 |
| Total | \$ 150,000 |

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

| EXPENDITURES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 5 Year Total |
|---------------------|----------------|-----------------|-----------------|-----------------|------------------|---------------------|
| 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 | (240,000) | (240,000) | (240,000) | (240,000) | (960,000) |
| Annual Total | \$ 0 | Decrease | Decrease | Decrease | Decrease | Decrease |

| REVENUES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 5 Year Total |
|---------------------|----------------|------------------|------------------|------------------|------------------|---------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self Generated | 0 | 35,000 | 35,000 | 35,000 | 35,000 | 140,000 |
| 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 | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 140,000 |

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Bill Information:

Current Law

Current law sets the contribution rate for the employees in Registrars of Voters Employees' Retirement System (RVRS) at 7%.

Proposed Law

HB 38 changes the employee contribution rate for current and future employees from 7% to a range between 7% and 9%, as determined by the board in consultation with their actuary.

Implications of the Proposed Changes

Members of RVRS may contribute up to 2% additional percentage of their pay than they do currently. These contributions may reduce employer contribution requirements that would otherwise be paid by the system.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Although HB 38 is only enabling legislation, giving permission for the RVRS board to increase the employee contribution rate and not mandating an increase, we have assumed in the preparation of this note that the employee contribution rate will be increased to 9% of pay. Under this assumption, we estimate the following:

1. The actuarial present value of future benefit payments (APV) will increase by about \$150,000 because future refunds of employee contributions will increase for employees who terminate employment without being eligible for a deferred pension. Therefore, not all of the increase in employee contributions will be available to reduce employer contributions.
2. There is no increase or decrease in the actuarial accrued liability of RVRS because the funding method used by the actuary is based on the present value of future benefits and does not produce an accrued liability.
3. Although the APV increases, employer contribution requirements will decrease by about 1.75% of pay. The increase in APV is substantially less than the amount of APV shifted from the responsibility of employers to the responsibility of employees.
4. The dollar amount of decrease in annual employer contributions to RVRS is estimated to be about \$240,000.
5. The dollar amount of increase in annual employee contribution requirements is estimated to be about \$275,000.

HB 38 may potentially be subject to a variety of federal and state constitutional challenges, including Contract Clause, Takings Clause, Due Process Clause, U.S. Constitution 5th Amendment, and U.S. Section 1983 – wrongful enforcement claims. We have not calculated the actuarial or financial effects of such challenges in the preparation of this actuarial note, which could potentially include litigation costs. However, we have been counseled of the potential consequences if such challenges arise. The legal analysis requested by the LLA may be found at www.la.la.gov.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 38 for the post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 38 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from RVRS (Agy Self-Generated) will increase beginning in FYE 2015 to the extent that refunds of employee contributions will be larger. This increase is very small in comparison to the decreases discussed below in item 2.
2. Expenditures from the Local Funds will decrease about \$240,000 a year beginning in FYE 2015 because employer contribution requirements will decrease.

Revenues:

- Revenues to RVRS (Agy Self-Generated) will increase about \$35,000 a year beginning in FYE 2015 because the increase in employee contributions (about \$275,000) will exceed the decrease in employer contributions (about \$240,000).

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Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

- 13.5.1 \geq \$100,000 Annual Fiscal Cost
- 13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

- 6.8(F) \geq \$500,000 Annual Fiscal Cost
- 6.8(G) \geq \$500,000 Annual Tax or Fee Change