


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 41**

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| <p>House Bill 41 HLS 13RS-276 Reengrossed with Legislative Bureau Amendment #1766</p> <p>Author: Representative Jeffery “Jeff” J. Arnold Date: May 15, 2013</p> <p>LLA Note HB 41.03</p> <p>Organizations Affected: Firefighters’ Pension and Relief Fund of New Orleans</p> <p>RE DECREASE APV</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 41 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/LOCAL: Provides relative to the board of trustees of the Firefighters’ Pension and Relief Fund in the city of New Orleans.

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.

| | |
|--|----------|
| Actuarial Cost/(Savings) to Retirement Systems and OGB | Decrease |
| Total Five Year Fiscal Cost | |
| Expenditures | Decrease |
| Revenues | \$0 |

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.

| <u>Actuarial Cost/(Savings) to:</u> | <u>Change in the Actuarial Present Value</u> |
|--|---|
| All Louisiana Public Retirement Systems | Decrease |
| Other Post Retirement Benefits | Decrease |
| Total | Decrease |

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 | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| Stat Deds/Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Local Funds | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| Annual Total | Decrease | 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 | 0 | 0 | 0 | 0 | 0 |
| 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 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

Bill Information:

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Current Law

Current law states that the board of trustees for the Firefighters' Pension and Relief Fund of New Orleans (NOFF) consists of ten members determined in the following manner.

1. The superintendent of the fire department.
2. The director of finance of the city of New Orleans.
3. Five members elected from the active ranks of the department.
4. Three members elected from the ranks of retired members of the department.

The term period for each of the members of the board of trustees is two years.

The election to the board is held on the second Wednesday in December and the members elected take office on the second Wednesday in January. The board of trustees is required to designate the place of the election at its regular meeting in November.

Under current law, only those members on the NOFF board of trustees elected or appointed from the active ranks of the department have the right to vote on any proposal to increase the assessment levied against the salary of each member of the fire force.

Current law requires a majority vote of the full membership of the board in order to grant any disability benefit to a member of NOFF.

Current law authorizes the board of trustees to provide an annual cost-of-living increase in benefits for retired members and widows of retired members. The cost-of-living increase shall not exceed 3% of the original benefit or 2% of the original benefit for retired members and widows who are age 65 or older. Such benefit increases shall only be paid from excess earnings on investments of the system, from funds appropriated for this purpose by the city of New Orleans, or from other sources designated for this purpose.

Article X, Section 29(F) of the Louisiana Constitution provides that benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment and if such benefit provision has an actuarial cost, a two-thirds vote of each house of the legislature is necessary for the benefit change to be approved.

Proposed Law

Under HB 41, the board of trustees for NOFF will consist of a total of seven members determined in the following manner.

1. The superintendent of the fire department.
2. The director of finance of the city of New Orleans.
3. Two members elected from the active ranks of the department.
4. Two members elected from the ranks of retired members of the department.
5. One member, who is domiciled in and an elector of New Orleans, who is appointed by the mayor of New Orleans with the approval of the city council.

The term period for each of the members of the board of trustees will be two years.

On the effective date of the proposed law, the terms of the current members of the board will terminate. However, such members will continue to serve until a successor is elected. If vacancies are created by the enactment of HB 41, the board will be required to call an election to fill such vacancies.

HB 41 provides the election to the board will be held on the fourth Wednesday in August and the members elected will take office at noon on the day following such election. The board of trustees will be required to designate the place of the election at its regular meeting in July.

Under HB 41, the voting limitations for certain members of the board on any proposal to increase the rate of pay that employees contribute to the system will be removed. Therefore, all members of the board will be allowed to vote on such proposals.

HB 41 requires approval by two-thirds majority of the full membership of the board in order to grant any disability benefit.

HB 41 requires an annual cost-of-living increase to be approved by two-thirds majority of the full membership of the board. Such cost-of-living increase must be ratified by a two-thirds vote of each house of the legislature.

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Implications of the Proposed Changes

HB 41 decreases the membership of the NOFF board of trustees, changes the timing of elections for the board, and adjusts the powers for certain members of the board. HB 41 further provides that any disability benefit and cost-of-living increase be approved by two-thirds majority of the full membership of the board of trustees.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Under HB 41, the two-thirds approval requirement by the board of trustees may result in disability benefits and cost-of-living increases being granted less frequently in the future than under current law. If the board approves disability benefits and cost-of-living adjustments less frequently in the future, the actuarial present value of future benefit payments will decrease. However, the extent to which the proposed board voting requirements will have on the frequency of disability benefits and cost-of-living adjustments cannot be determined.

Other Post Retirement Benefits

The present value of future benefit payments for post-employment benefits other than pensions will decrease as a result of HB 41. It is likely that fewer disability retirements will be granted and the ability of members to receive employer premium supplements for post-employment benefits will be delayed.

Analysis of Fiscal Costs

HB 41 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from NOFF (Agy Self Generated) will decrease because the reduction of the number of board members should lead to a decrease in administrative expenses.
2. Expenditures from NOFF (Agy Self Generated) may increase to pay for the special election to fill vacancies created upon the enactment of the proposed legislation. However, the cost of the special election should be nominal.
3. Expenditures for NOFF (Agy Self-Generated) will decrease to the extent that it may be more difficult to obtain approvals for disability benefits and cost-of-living adjustments.
4. Expenditures from Local Funds will not change. The retirement system is not actuarially funded; retirement system revenues are derived from employee contributions and various other revenue sources that do not depend on the actuarial solvency of the system.
5. Expenditures from Local Funds will decrease to the extent that employer premium supplements for post-employment benefits relative to disabilities decrease.

Revenues:

- NOFF revenues (Agy Self Generated) will not change. Retirement system revenues are based on sources that are not related to the level of benefit payments and investment earnings.

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