


**2014 REGULAR SESSION
ACTUARIAL NOTE SB 4**

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| <p>Senate Bill 4 SLS 14RS-67 Original</p> <p>Author: Senator Barrow Peacock</p> <p>Date: March 15, 2014</p> <p>LLA Note SB 4.01</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>OR DECREASE APV</p> | <p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to SB 4 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: FIREFIGHTERS RETIREMENT. Provides benefits for members hired on or after January 1, 2015. (6/30/14)

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 | \$ (4,000,000) |
| Revenues | \$ (4,000,000) |

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.

| | |
|--|--|
| | <u>Increase (Decrease) in The Actuarial Present Value</u> |
| <u>Actuarial Cost (Savings) to:</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 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 2018-2019 | 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 | (250,000) | (750,000) | (1,250,000) | (1,750,000) | (4,000,000) |
| Annual Total | \$ 0 | \$ (250,000) | \$ (750,000) | \$ (1,250,000) | \$ (1,750,000) | \$ (4,000,000) |

| REVENUES | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 2018-2019 | 5 Year Total |
|--------------------|----------------|----------------|----------------|------------------|------------------|---------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self Generated | 0 | (250,000) | (750,000) | (1,250,000) | (1,750,000) | (4,000,000) |
| 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 | \$ (250,000) | \$ (750,000) | \$ (1,250,000) | \$ (1,750,000) | \$ (4,000,000) |

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Dual Referral:

Senate

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

House

- 6.8(F)(1): Annual Fiscal Cost \geq \$100,000
 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
 6.8(G): Annual Tax or Fee Change \geq \$500,000

Bill Information:

Current Law

Current law provides for retirement eligibility, a 3 year final average compensation (FAC) period, and a 3 1/3% accrual rate for all members of Firefighters Retirement System (FRS).

Proposed Law

SB 4 changes the retirement eligibility, the FAC computation period, and the accrual rate. These changes apply to members of FRS first hired on or after January 1, 2015. These changes are summarized below.

| | For Members of FRS Hired on or after January 1, 2015 | |
|-------------------------------|--|--|
| | Current Provisions | Provisions under SB 4 |
| Retirement Eligibility | <ul style="list-style-type: none"> • 25 or more years of service at any age • 20 or more years of service at age 50 • 12 or more years of service at age 55 | <ul style="list-style-type: none"> • 20 or more years of service at age 50 • 12 or more years of service at age 55 |
| FAC | 3 years | 5 years |
| Anti-spiking cap | 15% | 15% |
| Accrual Rate | 3 1/3% | <ul style="list-style-type: none"> • 3 1/3%, only if a member has earned 30 or more years of service • 3%, otherwise |

The calculation of additional benefits earned for continued employment after DROP will change for members first employed on or after January 1, 2015. This change is summarized below.

1. If a member's additional service period is less than his FAC period, the additional benefit shall be calculated based on the FAC used to calculate his original benefit.
2. If a member's additional service period is at least his FAC period, the additional benefit shall be calculated based on the FAC during the additional service.

Implications of the Proposed Changes

SB 4 creates a new tier of benefits in FRS for members hired on or after January 1, 2015.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 4 has no effect on any current member of FRS. The actuarial present value of future benefit payments for existing members will not change. SB 4 has no effect on accrued liabilities because it applies to members first employed on or after January 1, 2015.

SB 4 provides for a longer FAC period, lower benefit accrual rates and later retirement ages for members first employed on or after January 1, 2015. As a result, the present value of future benefit payments for future members will decrease. Future normal costs and future employer contribution requirements will also decrease. However, savings from SB 4 will not begin to be recognized until new members first employed on or after January 1, 2015 begin to replace currently active members.

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The estimated effect of SB 4 on various actuarial cost measures is shown below. This analysis is partially based on information provided to the FRS by G.S. Curran & Company, Ltd.

| Change in | Reduction in Normal Cost | |
|---|----------------------------------|------------------------------|
| | Long Term over 25 or 30 years | Short Term within 5 years |
| FAC Period from 3 years to 5 years | 1.08% | 0.31% |
| Accrual Rate from 3 1/3% to 3% with 3 1/3% retroactive for members with 30 or more years of service | 1.75% | 0.51% |
| Retirement eligibility by Eliminating 25 & out provisions | 0.43% | 0.18% |
| Total | 3.26% | 1.04% |

Other Post-Employment Benefits

There are potential savings associated with other post-employment benefits (OPEB) depending upon the OPEB plan provisions for firefighters. SB 4 will potentially delay when members of FRS will retire. As a result, firefighters will be receiving OPEB benefits for a shorter period of time and cost will be less.

Analysis of Fiscal Costs

SB 4 will have the following effect on fiscal costs.

Expenditures:

1. Annual expenditures from FRS (Agy Self-Generated) will decrease because benefits for new members will decrease. However, this decrease is expected to be negligible during the 5 year measurement period because the only benefit likely to be paid relative to new members is a refund of employee contributions upon termination of employment and SB 4 has no effect on the calculation of this benefit.
2. Annual expenditures from Local Funds will decrease because employer contribution requirements will decrease. The expected decrease is shown below:

| Fiscal Year Ending | Estimated Decrease in Employer Contributions |
|-----------------------|---|
| 2015 | \$ 0 |
| 2016 | 250,000 |
| 2017 | 750,000 |
| 2018 | 1,250,000 |
| 2019 | 1,750,000 |

Revenues:

- FRS revenues (Agy Self-Generated) will decrease to the extent that employer contribution requirements decrease.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. The actuary signing this note may or may not agree with or endorse these assumptions. He is using this data, methods and assumptions to provide consistency with the actuary for the retirement systems who may also be providing testimony to the Senate and House retirement committees. This note is also based in part on cost analyses prepared by the G.S. Curran & Company Ltd., the actuary for FRS.

Actuarial Caveat

There is nothing in SB 4 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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.