


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 77**

<p>House Bill 77 HLS 14RS-452 Enrolled</p> <p>Author: Representative Jack Montoucet</p> <p>Date: May 29, 2014</p> <p>LLA Note HB 77.03</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EN INCREASE 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 HB 77 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/FIREFIGHTERS: Provides for conversion of leave to service credit in the Firefighters' 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.

Actuarial Cost/(Savings) to Retirement Systems and OGB	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

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>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

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	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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

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Bill Information:

Current Law

Current law regarding the Firefighters' Retirement System (FRS) does not contain any provision for the conversion of accumulated unused annual and sick leave into service credits usable in the calculation of benefits.

Proposed Law

Under HB 77, each employer participating in FRS may elect to allow its employees convert unused and unpaid leave into creditable service. This election must be made by resolution giving evidence to the election so made. The resolution must specify whether the conversion of leave will be made on an employee's entry into DROP or upon his date of separation of service. Once made, the election is irrevocable and will apply to all employees of the employer from that moment on.

Rules for converting unused leave, which will only be applicable to employees of electing employers, are summarized below:

1. All unused sick leave, annual leave, and compensatory leave for which payment by law cannot be made at the time of retirement, excluding extended sick leave, shall be converted into creditable service. This conversion will be made using a ratio of number of hours of leave to be converted and the number of hours worked in the employee's position which is equivalent to one year of work for the position. The number of hours of unused leave to be converted into service credit shall be determined by the employee.
2. There shall be no limit on the amount of unused leave that may be credited.
3. Regardless of the number of service credits granted, a member's benefit may not exceed 100% of his final average compensation.
4. The service credits granted for unpaid leave may not be used for the purpose of determining a member's eligibility for a benefit.
5. The actuarial cost associated with the additional benefit granted due to unused leave service credits will be calculated for each retiring member. The employer of each retiring member will pay the additional actuarial cost so determined within 30 days of receiving an invoice from FRS.
6. The increase in benefit resulting from application of HB 77 shall not be an accrued benefit subject to the protection of Article 10(29)(F) of the Constitution of Louisiana until FRS has received full payment from the employer.
7. An employer elects to have unused leave converted when an employee enters DROP. A member of such an employer who is in DROP when the employer election is made will have his leave converted on the later of the following dates:
(a) the effective date of HB 77 or (b) the date the member entered DROP.

Implications of the Proposed Changes

HB 77 will permit the conversion of unused sick leave into service credits for members of FRS. The election to allow such conversion will be made by each participating employer. Once an election is made it will be irrevocable.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 77 contains benefit provisions having an actuarial cost.

HB 77 will have the following effects on various components of actuarial cost.

1. The actuarial present value of future benefit payments will increase.
2. The actuarial accrued liability of FRS will increase.
3. The unfunded accrued liability of FRS will not change because the employer pays the additional actuarial cost associated with each retiring member.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 77 for post-employment benefits other than pensions.

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Analysis of Fiscal Costs

HB 77 will have the following effect on fiscal costs during the five-year fiscal measurement period.

Expenditures:

1. FRS expenditures (Agy Self-Generated) will increase because benefits paid to members will be larger.
2. Expenditures from Local Funds will increase because employers electing conversion rights are required to pay the increased actuarial cost. Contribution requirements for employers not electing to provide conversion rights will not increase.
3. Expenditures from local funds will decrease to the extent that a local employer provides for a lump sum payment of unused leave. It is generally less expensive to provide conversion of leave into service credits than to pay the lump sum amount. However rules regarding payment of unused leave credit vary widely from employer to employer. Therefore no universal conclusion can be drawn.

Revenues:

- FRS revenues will increase to the extent that employers elect to provide conversion rights to their employees; employees obtain additional service credits and larger pension benefits; and the increase in the actuarial cost is paid by the employer.

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. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in HB 77 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.

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