2015 REGULAR SESSION
ACTUARIAL NOTE SB 19

Senate Bill 19 SLS 15RS-139 **Original** **Author: Senator Edwin R. Murray** **Date: April 14, 2015** **LLA Note SB 19.01** **Organizations Affected:** **Firefighters' Pension and Relief Fund in the city of New Orleans** **OR DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 19 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: LOCAL RETIREMENT. Provides relative to the Firefighters' Pension and Relief Fund in the city of New Orleans (gov sig)

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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 to Retirement Systems	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

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 to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	$0
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 the retirement systems and other government entities.. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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<u>Bill Information:</u>

Current Law

Administration

1. Provisions relative to the Firefighters' Pension and Relief Fund in the city of New Orleans (NOFF) are contained in Part VIII of Title 11, Subtitle IV, Chapter 2 of Louisiana's revised statutes. The legislature may make changes to these provisions as it deems appropriate.

2. R.S. 11:3370 provides in general that the board of trustees has the sole authority to establish an investment policy and make such investments in accordance with the prudent man rule.

3. Current law is silent about the retirement system's ability to issue debt instruments and invest the proceeds.

Benefits

1. Any firefighter who enters the employ of the fire department on or after January 1, 2015 who has reached 52 years of age with at least 12 years of service in the fire department shall be able to retire.

2. Any member who enters the employ of the fire department on or after January 1, 2015 who has at least 12 years of service with the fire department but who withdraws from service before age 52 shall be able to retire when he or she attains age 52.

3. The term "DROP Account" shall mean the notational account maintained under DROP as an ancillary payment option.

4. Any member who enters the employ of the fire department on or after January 1, 2015 who has at least 12 years of service but less than 20 years but who withdraws from service before age 52 shall receive a benefit equal to 2.5% per year of service time his highest annual rate of pay. If such member dies after such withdrawal but before he or she attains age 52, the member's widow, child, or estate shall receive his accumulated employee contributions with interest.

Proposed Law

Administration

1. The legislature may make changes to PART VIII only after approval has been given by a majority vote of the fund's board of trustees and by the New Orleans City Council.

2. The Fund's investment policy may only be changed by a two-thirds vote of the board of trustees.

3. The board of trustees is prohibited from issuing debt instruments or investing proceeds from a debt instrument.

4. A five member Investment Advisory Committee will be established. Each member must have investment experience. The committee shall advise the board of trustees on investment policy and decisions, but shall not be fiduciaries of the Fund.

Benefits

1. Any firefighter who enters the employ of the fire department on or after January 1, 2015 ***but on or before December 31, 2015***, who has reached 52 years of age with at least 12 years of service in the fire department shall be able to retire. The retirement age will be increased to age 53 for any member hired on or after January 1, 2016.

2. Any member who enters the employ of the fire department on or after January 1, 2015 ***but on or before December 31, 2015***, who has at least 12 years of service with the fire department but who withdraws from service before age 52 shall be able to retire when he or she attains age 52. The retirement age will be increased to age 53 for any member hired on or after January 1, 2016.

3. For any firefighter employed on or after January 1, 2016, the term "DROP Account" shall mean an account maintained independently of the fund's general trust assets.

4. Any member who enters the employ of the fire department on or after January 1, 2015 ***but on or before December 31, 2015***, who has at least 12 years of service but less than 20 years but who withdraws from service before age 52 shall receive a benefit equal to 2.5% per year of service time his highest annual rate of pay. If such member dies after such withdrawal but before he or she attains age 52, the member's widow, child, or estate shall receive his accumulated employee contributions with interest. For all members first employed on or after January 1, 2016, the ages referred to in the prior two sentences will be increased to age 53.

Implications of the Proposed Changes

SB 19 establishes new rules for NOFF governance including a requirement that any legislation must be approved by the NOFF board of trustees and the New Orleans City Council before being presented for approval by the legislature. SB 19 establishes a five member Investment Advisory Committee, each member of which must have investment experience. Members of the committee will not be fiduciaries. Any changes in investment policy must receive approval by a two-thirds vote of the board of trustees.

As a result of SB 19, DROP accounts for firefighters hired on or after January 1, 2016 will be accounts maintained independently from the fund's general trust assets. SB 19 provides for a new tier of benefit provisions for members hired on or after January 1, 2016. The primary changes are summarized below.

1. The retirement age is changed from age 52 to age 53, and

2. Members with vested rights who withdraw from service prior to retirement eligibility may elect to receive their service retirement at age 53; not age 52.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

Administration

It is anticipated that the administrative changes to SB 19 will lead to better governance, better investment policy, and better investment returns. As a result, actuarial cost will be reduced and employer contribution requirements will be smaller.

Benefits

1. SB 19 has no effect on NOFF actuarial accrued liabilities because it does not affect any member employed on or before December 31, 2015.

2. SB 19 will have the following effect on employee and employer normal costs:

   a. An employee will contribute one more year than he would have otherwise.

   b. An employee will earn one more year of service credit that he would have otherwise.

   c. An employee's final average compensation is likely to be larger than it would have been otherwise.

   d. An employer will contribute one more year than it would have otherwise.

   e. One the other hand, the total normal cost will decrease because members are projected to retire at age 53 rather than age 52.

   f. The total amount contributed by the employee and the employer over a member's career will decrease.

   g. SB 19 will only have a small effect initially but the impact will increase over time as post January 1, 2016 members replace pre January 1, 2016 members.

3. DROP accounts for members employed on or after January 1, 2016 will be held outside the NOFF trust. SB 19 is silent about the administration of these DROP accounts.

Other Post-Employment Benefits

There are no actuarial costs associated with SB 19 relative to post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 19 will have the following effect on fiscal costs during the five year measurement period.

Expenditures

1. Expenditures from local funds will decrease because better governance will lead to better investment performance and lower employer contribution rates.

2. Expenditures from local funds will decrease because delaying retirement benefits will lead to lower employer contribution requirements.

Revenues:

- NOFF revenues (Agy Self-Generated) will decrease because employer contribution requirements will decrease over time.

Changes in expenditures and revenues during the five year measurement period are expected to be less than $100,000 for any given year.

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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.

Actuarial Caveat

There is nothing in SB 19 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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	House
☐ 13.5.1: Annual Fiscal Cost ≥ \$100,000	☐ 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ \$500,000	☐ 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ \$500,000