2015 REGULAR SESSION
ACTUARIAL NOTE HB 44

House Bill 44 HLS 15RS-260 Engrossed **Author: Representative Gregory A. Miller** **Date: April 28, 2015** **LLA Note HB 44.02** **Organizations Affected:** **Municipal Police Employees' Retirement System** **EG NO IMPACT APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 44 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/MUNICIPAL POL: Requires employers who terminate participation in the Municipal Police Employees' Retirement System to pay the portion of the system's unfunded accrued liability attributable to the employer's participation in the system

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	$0
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.

Actuarial Cost to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

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**	**2018-2019**	**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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-2019**	**2019-2020**	**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

Under current law, the Municipal Police Employees' Retirement System MPERS is a multiple employer defined benefit pension plan providing retirement benefits for employees of employers electing to participate in the system. The following employers may participate in MPERS: MPERS (as an employer) and any municipality in the state which employs a full-time police officer empowered to make arrests, or which has an elected chief of police whose salary is at least $180 per month.

Proposed Law

The definition of employer under HB 44 has been expanded to include any municipality that has completely or partially terminated its participation in MPERS.

Under HB 44, any employer that completely terminates its participation in MPERS through complete dissolution of its police force must pay to MPERS any unfunded accrued liability (UAL) attributable to its dissolved participation. The payment amount is equal to the employer's portion of the UAL that existed on the June 30 immediately prior to the date of the complete termination. Interest will be charged at the system's valuation rate.

An employer will incur a partial termination of its participation in MPERS if member salaries of a participating employer used as the basis for determining contributions to MPERS are less than 70% of member salaries for that employer for the prior year. An employer that incurs a partial termination must pay to MPERS an amount equal to the amount it would have paid had the employer incurred a complete termination multiplied by the percentage decrease in year over year member salaries.

The termination payment calculated by the MPERS actuary shall be paid in a lump sum. Alternatively, the completely or partially terminating employer may amortize the lump sum amount with equal payments over a ten year period using the system's valuation interest rate.

If an employer fails to make payment in a timely manner, HB 44 authorizes MPERS to collect delinquent amounts in one of the following two ways:

(1) By action in a court of competent jurisdiction against the delinquent employer. The amount due shall be collected with interest at the system's actuarial valuation rate, compounded annually.

(2) By certifying to the state treasurer the amount attributable to the delinquent employer. Upon receipt of such certification, the treasurer shall deduct from monies payable to the delinquent party the delinquent amount and remit such amount directly to MPERS.

Implications of the Proposed Changes

A municipality participating in MPERS will become responsible for its pro-rata share of the MPERS unfunded accrued liability should it completely or partially dissolve its police department.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 44 does not contain any benefit provisions having an actuarial cost.

HB 44 has no effect on normal cost calculations. The normal cost rate will change, but only because there are fewer active police officers participating in the system and police officers remaining after the reduction in force will have different demographic characteristics than police officers participating in MPERS prior to the reduction. This change in normal cost is attributable to the reduction in the participating active members; it is not attributable to HB 44.

The MPERS UAL will be reduced immediately by the UAL allocated to the terminating employer. This occurs regardless of whether the terminating employer elects to make a lump sum payment or to pay in installments over 10 years. The UAL reduction will be treated as a gain and will be amortized with level payments over a 15 year period. This will reduce employer amortization contribution requirements for non-terminating employers for the next 15 years.

If the terminating employer elects to make a lump sum payment, its responsibility for legacy cost has been satisfied. However, if the terminating employer elects to make installment payments, MPERS will set up a charge base equal to the UAL allocated to the terminating employer. The charge base will be amortized over a 10 year period. The terminating employer will be responsible for these payments.

If a terminating employer elects to make installment payments, net amortization payments to MPERS will increase for 10 years and then decrease for the next five years. Ten year amortization charges paid by the terminating employer will be greater than 15 year amortization credits received by non-terminating employers.

Other Post-Employment Benefits

There are no actuarial costs associated with this bill for post-retirement benefits other than pensions.

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Analysis of Fiscal Costs

Changes in fiscal costs are summarized below:

Expenditures:

1. Expenditures from Local Funds will increase because a terminating employer will be required to make a lump sum payment to MPERS or make ten equal annual installments.

2. Expenditures from Local Funds will increase for the ten years and then decrease for the next five years thereafter. Amortization payments from the terminating employer will exceed amortization credits for non-terminating employers over the initial ten year period.

Revenues:

1. MPERS revenues (Agy Self-Generated) will increase because a terminating employer will be required to make a lump sum payment to MPERS or make ten equal annual installments.

2. MPERS revenues will increase for the ten years and then decrease for the next five years thereafter. Amortization payments from the terminating employer will exceed amortization credits for non-terminating employers over the initial ten year period.

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 adopted by PRSAC.

Actuarial Caveat

There is nothing in HB 44 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