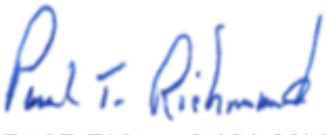


**2015 REGULAR SESSION
ACTUARIAL NOTE HB 9**

<p>House Bill 9 HLS 15RS-289 Reengrossed with House Floor Amendment #2339 and House Floor Amendment #2689</p> <p>Author: Representative Dorothy Sue Hill Date: May 12, 2015</p> <p>LLA Note HB 9.03</p> <p>Organizations Affected: Municipal Employees' Retirement System</p> <p>RE INCREASE 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 9 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/MUNICIPAL EMP: Provides relative to enrollment of judges and employees of the Local Tax Division of the Board of Tax Appeals in the Municipal Employees' Retirement 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	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.

Actuarial Cost to:	<u>Change 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 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	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis	See Analysis
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	2018-19	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

The Local Tax Division of the Board of Tax Appeals (BTA), created during the 2014 legislative session, is an employer that participates in the Louisiana State Employees' Retirement System (LASERS). The staff of this organization consists of a judge and his administrative assistant. The judge for the Local Tax Division of the BTA must be a member of the Board of Tax Appeals.

The administrative assistant is a member of LASERS.

LASERS initially allowed the judge to also become a member. However, LASERS later reexamined its position and reversed its decision. LASERS initially allowed the judge to be a member because he did not receive any compensation as a member of the BTA. It later reversed its opinion and concluded that because being a member of the BTA is a pre-requisite for being employed by the Local Tax Division, he receives compensation as an employee of the Local Tax Division of the BTA only because he also serves on the BTA. Therefore, in LASERS opinion, Article 10(29.1)(A)(3) of the Louisiana Constitution deems the judge to be a part time employee and therefore ineligible for membership in the system.

The Municipal Employees' Retirement System (MERS) is a voluntary system; meaning that a Louisiana government employer may voluntarily choose to have its employees covered under MERS. Although Article 10(29.1)(A)(3) is also applicable to MERS, legal counsel for MERS interprets the Louisiana Constitution differently than counsel for LASERS and would allow the judge to participate in MERS.

MERS has two sub plans – Plan A and Plan B. Plan A's benefit formula provides a larger benefit accrual rate than Plan B's formula. The employer decides which plan will cover its employees when the employer becomes a participating employer.

Proposed Law

Under HB 9, the Local Tax Division of the BTA will be added to the list of employers participating in MERS. The Local Tax Division of the BTA will decide what plan to participate in once it elects to participate.

Implications of the Proposed Changes

Membership in MERS will increase as a result of HB 9.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The removal of the Local Tax Division of the BTA from the list of employers eligible to participate in LASERS and the addition of that organization to the list of eligible to participate in MERS will have the following effect on actuarial costs factors.

1. LASERS will lose one member, an administrative assistant. MERS will gain two members, a judge and an administrative assistant.
2. The present value of future benefits for LASERS will decrease. The present value will increase for MERS. The net effect is an increase.
3. The present value of future normal costs will decrease for LASERS. It will increase for MERS. The net effect will be an increase.
4. Annual payroll upon which employer and employee contributions are based will increase. Currently only one employee of the Local Tax Division of the BTA is participating in a retirement system. Under HB 9, two will be participating.
5. Employer contributions to LASERS will decrease; it will lose one member with an employer rate of 37.0%. Employer contributions to MERS will increase; it will gain two members with an employer contribution rate of 20.75%. The net effect will be an increase in employer contributions.
6. Employee contributions to LASERS will decrease; it will lose one member with an employee rate of 8.0%. Employee contributions to MERS will increase; it will gain two members with an employee rate of at least 9.5%. The net effect will be an increase in employee contributions.
7. LASERS unfunded accrued liability and MERS unfunded accrued liability will not change when the administrative assistant transfers membership. No additional unfunded accrued liability will be created by the additional of the judge to MERS.

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Other Post-Employment Benefits

HB 9 has no effect on actuarial costs associated with post-retirement benefits other than pensions assuming such benefits are provided through the Office of Group Benefits.

Analysis of Fiscal Costs

HB 9 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from LASERS (Agy Self Generated) will increase in FYE 2016 because the administrative assistant will transfer her membership from LASERS to MERS. As a result of the transfer, a one-time exchange of funds will occur from LASERS to MERS. Benefit expenditures in all other years of the five year measurement period are expected to decrease because the administrative assistant will no longer be a member and therefore will not be eligible for a termination benefit should she leave employment.
2. Expenditures from MERS (Agy Self-Generated) will increase during the five year fiscal measurement period only to the extent that an employee of the Local Tax Division of the BTA terminates employment and requests a refund of his own contributions from the retirement system.
3. The transfer of assets from LASERS to MERS is cost neutral in the aggregate. However, benefit expenditures (Agy Self Generated) are expected to increase because there will be two members in MERS entitled to benefits and LASERS would have had one.
4. Expenditures from Local Funds will increase. Employer contributions for the Local Tax Division of the BTA are funded from Local Funds regardless of whether its employees participate in LASERS or MERS. Although the lower MERS rate is being exchanged for the LASERS rate, there will be two members at MERS instead of one. The net effect will be an increase in employer contributions.
5. In general, the increase in expenditures will be limited to the Local Tax Division of the BTA. The effect on expenditures for other participating employers in MERS will be negligible.

Revenues:

- LASERS revenues (Agy Self Generated) will decrease because it will no longer receive employer or employee contributions from the Local Tax Division of the BTA relative to the administrative assistant.
- MERS revenues (Agy Self-Generated) will increase because it will receive employer and employee contributions from two employees of the Local Tax Division of the BTA.
- The net effect will be an increase in revenues received by the retirement systems because the increase in revenue for MERS is greater than the decrease for LASERS.

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 9 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

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