


**2016 REGULAR SESSION  
ACTUARIAL NOTE HB 27**

<p><b>House Bill 27 HLS 16RS-306 Engrossed 1 with Senate Retirement Committee Amendment #1761</b></p> <p><b>Author: Representative Jack Montoucet</b></p> <p><b>Date: April 27, 2016</b></p> <p><b>LLA Note HB 27.03</b></p> <p><b>Organizations Affected: Firefighters' Retirement System</b></p> <p><b>EG1 INCREASE APV</b></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 27 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/FIREFIGHTERS: Provides with respect to payment of interest in certain cases of administrative error 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.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 Year Total</b>
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	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	0	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	\$ 0	\$ 0	Increase	Increase	Increase	Increase

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### **Bill Information:**

#### **Current Law**

Under current law, the director of the Firefighters' Retirement System (FRS) may correct any administrative error and make all adjustments relative to such correction. The director must correct such an error based solely on sufficient documentation, which must be submitted to the board of trustees along with a determination of whether the error was due to the System or due to something else. Although general authority is given to the director to decide on the appropriate remedy, current law does not specifically provide for an interest adjustment and the director has refrained from making such an adjustment.

#### **Proposed Law**

HB 27 provides that in case of an *underpayment of benefits due to an administrative error* by system staff, the correction of such an error may include interest at a rate not to exceed the valuation interest rate or the judicial interest rate, whichever is lower.

#### **Implications of the Proposed Changes**

HB 27 gives FRS the authority to pay interest on the underpayment of benefits attributable to administrative error.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

HB 27 contains a benefit provision having an actuarial cost. Remedies for administrative errors as administered under current law do not include an interest adjustment. HB 27 provides that an interest adjustment may be made in the event of an under payment of benefits due to the system's administrative error.

#### **Retirement Systems**

HB 27 has an actuarial cost. Currently, remedies for administrative errors do not include an adjustment for interest. Under HB 27, an interest adjustment may be given.

#### **Other Post Retirement Benefits**

There are no actuarial costs associated with HB 27 for post-employment benefits other than pensions.

#### **Analysis of Fiscal Costs**

HB 27 will have the following effect on fiscal costs.

##### Expenditures:

1. Expenditures from FRS (Agy Self-Generated) will increase because the cost of providing a remedy for administrative errors may increase. Remedy costs will increase during FYE 2017. The first valuation affected by such remedy cost will be the June 30, 2017 valuation. Increases in employer contribution requirements will first occur for FYE 2019.
2. Expenditures from Local Funds will increase because the larger cost associated with administrative remedies will lead to higher employer contribution requirements.

##### Revenues:

1. FRS revenues (Agy Self-Generated) will increase beginning FYE 2019 because employer contributions will increase.

### **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 27 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 to render the actuarial opinion contained herein.

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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