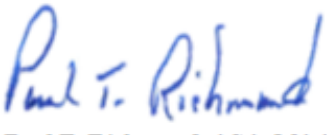


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 22**

<p>House Bill 22 HLS 16RS-187 Engrossed 2 with Senate Retirement Committee Amendment #1762 and Senate Finance Committee Amendment #2365</p> <p>Author: Representative Jack Montoucet Date: May 3, 2016</p> <p>LLA Note HB 22.04</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG2 NO IMPACT 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 22 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>
---	---

Bill Header: RETIREMENT/FIREFIGHTERS: Establishes a funding deposit account for the Firefighters' Retirement System and authorizes the board of trustees of the system to modify required employer contribution rates in certain circumstances and within certain limits in order to fund the account.

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 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:	<u>Change in the Actuarial Present Value</u>
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	2016-17	2017-18	2018-19	2019-2020	2020-2021	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	Increase	Increase	Increase	Increase	Increase
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	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	\$ 0	Increase	Increase	Increase	Increase	Increase

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 22**

Bill Information:

Current Law

The following statewide retirement systems have a Funding Deposit Account.

1. The Assessors' Retirement Fund (ASSR).
2. The Clerks' of Court Retirement and Relief Fund (CCRS).
3. The Municipal Employees' Retirement System of Louisiana (MERS).
4. The Parochial Employees' Retirement System of Louisiana (PERS).
5. The Registrars of Voters Employees' Retirement System (RVRS).
6. The District Attorneys' Retirement System (DARS).

If the actuarially required contribution rate for the current year is less than the employer contribution rate for the prior year, the board of trustees for any of the statewide retirement systems identified above may elect to set the current year employer contributions rate equal to the prior year contribution rate, or may set the rate at any point between the current year rate and the prior year rate. The additional amount so contributed by employers will be credited to the system's Funding Deposit Account.

The board of trustees of a statewide system identified above may use the monies in the Funding Deposit Account:

1. To reduce the unfunded accrued liability of the retirement system, if any.
2. To reduce the system's employer contribution rate.
3. To provide for cost-of-living adjustments (COLA) to the retirees of the system.

There is no provision for a Funding Deposit Account for the Firefighters' Retirement System (FRS) under current law.

Proposed Law

HB 22 requires the establishment of a Funding Deposit Account for FRS and provides rules for the Account.

The board of trustees of FRS may use the monies in the Funding Deposit Account:

1. To reduce the unfunded accrued liability of the retirement system, if any.
2. To reduce the system's employer contribution rate.

HB 22 prohibits FRS from using the funds in the Account to provide cost-of-living adjustments (COLA) to its members.

Implications of the Proposed Changes

HB 22 requires the establishment of a Funding Deposit Account for FRS that will operate in a manner similar to the systems identified above.

Cost Analysis:

Analysis of Actuarial Costs

HB 22 does not contain any benefit provisions having an actuarial cost.

Retirement Systems

HB 22 requires FRS to establish a Funding Deposit Account. HB 22 is permissive in that it does not require FRS to use the account.

The existence of a Funding Deposit Account for FRS will have no effect on employer contribution requirements as calculated by the system's actuary. Assets of the FRS Funding Deposit Account will be raised from extra contributions made by employers in order to provide a reserve.

HB 22 does not itself establish any additional liability. However, it does provide the board of trustees more flexibility that it may use to reduce fluctuations in employer contribution requirements. Therefore it is likely that the board of trustees will exercise its authority to use the Funding Deposit Account and will establish contribution rates in the future that are larger than the minimum employer rate calculated by the actuary.

A change in the timing of employer contributions does not have an effect on the actuarial cost of the system. However, HB 22 is likely to have a fiscal cost.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 22 relative to post-employment benefits other than pensions.

**2016 REGULAR SESSION
ACTUARIAL NOTE HB 22**

Analysis of Fiscal Costs

A fiscal cost will be incurred under HB 22 only if FRS uses its Funding Deposit Account. The assessments of fiscal costs shown below are based on the assumption that FRS will use the Funding Deposit Account.

Expenditures:

- Expenditures from Local Funds will increase for fiscal years in which the board requires an employer contribution rate that is greater than the actuarially required rate.

Revenues:

- FRS revenues (Agy Self-Generated) will increase to the extent that the employer contribution rate is greater than the actuarially required rate.

We assume that assets in the Funding Deposit Account will not be used by FRS until a substantial pool of assets is accumulated. Therefore, we conclude that expenditures from the Funding Deposit Account will be \$0 during the five-year fiscal measurement 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 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 22 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 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