


**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

<p>House Bill 8 HLS 17RS-292 Original</p> <p>Author: Representative Mark Abraham</p> <p>Date: April 3, 2017 LLA Note HB 8.01</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>OR DECREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to membership restrictions of the Firefighters' Retirement System

Cost Summary:

The estimated actuarial and fiscal impact of HB 8 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the *actuarial present value of future benefit payments*. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the *actuarial present value of future benefit payments and expenses*, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:			Actuarial Cost
The Retirement Systems			Decrease
Other Post-Employment Benefits (OPEB)			Decrease
Other Government Entities			<u>0</u>
Total			Decrease
Fiscal Costs			
Five Year Fiscal Cost Pertaining to:	Expenses	Revenues	
The Retirement Systems	Decrease	Decrease	
Other Post-Employment Benefits	Decrease	0	
Other Government Entities	<u>0</u>	<u>0</u>	
Total	Decrease	Decrease	

The total decrease in actuarial and fiscal costs is \$0 to negligible.

Bill Information

Current Law

§191(A) pertains to all 13 state and statewide retirement systems. It provides:

1. A person who serves in more than one position of government at the same time must become a member of one or more of the 13 state and statewide Louisiana retirement systems. The positions that such a person fills may be covered by one retirement system or by two or more retirement systems. The employers for whom the person is employed may be a sponsor of one or more retirement systems.
2. A person is considered to be dual employed if he is simultaneously employed by two or more employers that participate in two or more retirement systems.
3. Such a person shall become a contributing member of all the retirement systems that cover the positions in which the person serves. His level of participation in each retirement system is based on his earnings attributable to such service. However, such a member may not earn more than one year of service credit in any given year.

§2253(A)(1)(a)(i) provides:

1. A firefighter shall become a member of FRS as a condition of his employment. However, a firefighter shall not become an FRS member until he attains age 18. Furthermore, he shall not become an FRS member if he is first employed as a firefighter on or after his 50th birthday.

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

2. A fire district is any government entity that employs full-time firefighters. Fire districts in Orleans and Lafayette parishes are not sponsors of FRS and do not qualify for participation in the system.
3. Firefighters employed by fire districts in Orleans and Lafayette parishes may not become members of FRS.
4. Firefighters must be employed on a full-time basis (at least 36 hours per week) in order to become a member of FRS.

Proposed Law

§191 will be modified as follows:

1. FRS will be excluded from the dual membership rules of §191(A). §191(A) will continued to apply to all other state and statewide retirement systems.
2. A person employed by a non-qualifying employer or fire district may become a member of a system other than FRS. Such a person may become a member of such a system if he satisfies that system's eligibility requirements for membership. The pre age 18 and post age 50 exclusions pertaining to firefighters will have no bearing on whether or not the non-FRS employee will be permitted to become a member of a system other than FRS.

§2253(A)(1)(a) will be modified to provide the following:

1. Any firefighter employed by more than one employer must become a member of FRS as an employee of only one employer.
2. Service and pay credits earned with only one of the fire districts will count toward the accrual of the person's retirement benefit. At retirement, pension benefits earned while employed by each fire district will be calculated. The calculation that produces the largest pension will be used as the firefighter's pension benefit.
3. An FRS retiree who returns to work for any qualifying fire district shall be deemed to have returned to work and his pension benefit from FRS will be suspended.
4. A member of a retirement system other than FRS who becomes a firefighter shall not be allowed to become a participant in FRS for as long as he continues to participate in the non-FRS retirement system.

Implications of the Proposed Changes

HB 8 exempts FRS from the general dual membership rules that apply to all other state and statewide retirement systems. Instead, it provides that a firefighter may be credited only with pay and service credits with one fire district. The following rules will apply:

1. A firefighter must become a member of FRS unless he is a member of another retirement system when he is first employed as a firefighter.
2. A firefighter who is a member of a system other than FRS when he becomes employed by a fire district shall not be allowed to become a member of FRS unless he relinquishes his membership in the other system.
3. If a firefighter is employed by more than one fire district and he is already a member of FRS, he shall become a member of the system as an employee of only one employer going forward. The firefighter's pension will be calculated using service and pay credits earned with each fire district. The firefighter's pension benefit will be the largest benefit so calculated.
4. If a *retired* firefighter becomes employed by a qualifying fire district, the firefighter's pension benefit from FRS will be suspended until his employment ceases.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Actuarial Costs
(Prepared by the LLA)**

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

According to Steven Stockstill, the Executive Director of FRS, no one currently will be affected by HB 8.

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

1. Retirement Systems

As a result of HB 8, the *actuarial present value cost* associated with the retirement systems is estimated to decrease. Our actuarial analysis is summarized below. By eliminating dual membership, no member will receive a larger benefit under HB 8 than what he will receive without HB 8. Although *actuarial present value costs* will decrease, such a decrease in cost will be small or negligible. Our analysis is given below.

a. Category A – A firefighter is employed by two FRS employers simultaneously

Example:

1. The firefighter has worked for Employer X for the past 25 years and is earning \$60,000 a year.
2. While continuing to work for Employer X, the firefighter has also worked for Employer Y for the past 5 years and is earning \$30,000 a year.

Example under Current Law

1. The firefighter's accrued benefit will be based on his final average compensation and his service from both employers. However, he cannot earn more than one year of service per year. Therefore, the firefighter has 25 years of service credit.
2. The firefighter's accrued benefit will be based on his final average compensation which is approximately \$90,000 a year. His income from Employer X is added to his income from Employer Y.

Example under HB 8

1. The firefighter's accrued benefit from Employer X will be based on his final average compensation and service with Employer X. Therefore his final average compensation will be about \$60,000 and he will have 25 years of service.
2. The firefighter's accrued benefit from Employer Y will be based on his final average compensation and service with Employer Y. Therefore his final average compensation will be about \$30,000 and he will have 5 years of service.
3. The retirement benefit payable to the firefighter from FRS based on employment with Employer X is clearly larger than the benefit payable to the firefighter based on employment with Employer Y. Therefore, the firefighter's pension will be based only on employment with Employer X.

b. Category B – A firefighter is employed by two FRS employers in succession

Example:

1. The firefighter has worked for Employer X for 25 years. He was earning \$60,000 a year when last employed by Employer X.
2. The firefighter then became employed by Employer Y. He has worked for Employer Y for the past 5 years earning \$60,000 a year.

Example under Current Law

1. The firefighter's accrued benefit will be based on his final average compensation and his service from both employers. The firefighter has 30 years of service credit – 25 years from Employer X and 5 years from Employer Y.
3. The firefighter's accrued benefit will be based on his final average compensation which is approximately \$60,000 a year. His benefit from FRS is based on service from both employers (30 years) but only on his final average earnings from Employer Y.

Example under HB 8

The firefighter's accrued benefit will be the same under both current law and under HB 8.

c. Conclusions

1. Pension benefits for firefighters who work for only one FRS employer at a time are not affected by HB 8.
2. If a firefighter works for more than one FRS employers at the same time, only his service and compensation with one employer may be used in the calculation of the firefighter's pension benefit.
3. No FRS member will receive a larger benefit with the enactment of HB 8 than what he would have received under current law.
4. FRS benefits for firefighters working for two or more FRS employers simultaneously will always be less than or equal to FRS benefits under current law. The actuarial present value of future benefit payments by FRS is expected to decrease with the passage of HB 8. However, the decrease is expected to be small or negligible because few, if

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

any, firefighters are currently being employed by two or more employers at the same time. Furthermore, it is not likely that many firefighters will be simultaneously employed in the future.

2. Other Post-Employment Benefits (OPEB)

As a result of HB 8, the *actuarial present value cost* associated with OPEB will decrease. It is likely that more members of FRS will defer retirement with the enactment of HB 8 than without its enactment. Delayed retirement will reduce actuarial costs. However, such a decrease will be small to negligible.

3. Other Government Entities

The *actuarial present value cost* of HB 8 associated with government entities other than FRS and its sponsors is estimated to be \$0 or negligible.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, the actuarial note for HB 8 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The 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 8 that will compromise the signing actuary’s ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 8 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by the LLA)**

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

The effects on retirement related fiscal costs or savings during the five year measurement period are shown in Table A and Items 2 and 3 below.

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

2. Expenditures:

- a. Expenditures from FRS (Agy Self-Generated) will decrease because there will be fewer retirements, pension benefits will be smaller, and fewer members will join the retirement system.
- b. Expenditures from local funds will decrease because benefits will decrease and employer contribution requirement will decrease.

3. Revenues:

- a. FRS revenues (Agy Self-Generated) will decrease. Smaller employer contribution requirements will produce smaller contributions in dollars.

The effect of HB 8 on retirement fiscal costs and revenues will be very small or negligible.

**B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA)**

1. Narrative

Table B shows the estimated fiscal impact of HB 8 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

The effects on retirement related fiscal costs or savings during the five year measurement period are shown in Table B and Items 2 and 3 below.

OPEB Fiscal Cost: Table B

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

2. Expenditures:

- a. Expenditures from Local Funds will decrease because there will be fewer individuals entitled to OPEB.

3. Revenue:

- a. HB 8 will have no effect on local fund revenues. Any decrease in local fund costs will be available for purposes other than pensions and other retirement benefits.

The effect of HB 8 on fiscal costs associated with OPEB will be small to negligible.

**C. Estimated Fiscal Impact – Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Mike Battle, Audit Manager for the LLA)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of HB 8 on such government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	0	0	0	0	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

The effect on fiscal costs related to other government entities during the five year measurement period is shown in Table C and Items 2 and 3 below.

2. Expenditures:

There is no anticipated indirect material effect on the expenditures of local governmental entities (e.g., fire district) as a result of this measure. The bill prohibits members of the Firefighters’ Retirement System from being members of other state retirement systems based on firefighter service and clarifies that no one can be a member of the Firefighters’ Retirement System for multiple employers. Based on information from the Firefighters’ Retirement System, Louisiana State Firemen’s Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the expenditures of other governmental entities.

3. Revenues:

There is no anticipated indirect material effect on the revenues of local governmental entities (e.g., fire district) as a result of this measure. The bill prohibits members of the Firefighters’ Retirement System from being members of other state retirement systems based on firefighter service and clarifies that no one can be a member of the Firefighters’ Retirement System for multiple employers. Based on information from the Firefighters’ Retirement System, Louisiana State Firemen’s Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the revenues of other governmental entities.

D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and Other Government Entities

1. Narrative

Table D shows the estimated fiscal impact of HB 4 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

The “increase” amounts shown in Chart D are small to negligible is value.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 8**

The total amount of decrease in actuarial costs or savings and fiscal costs or savings is \$0 to negligible.

Staff 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.

Mike Battle, Audit Manager for the Louisiana Legislative Auditor has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

HB 8 contains a retirement system benefit provision having an actuarial cost.

No member of FRS will receive a larger retirement benefit with the enactment of HB 8 than what he would have received without HB 8.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

Senate

House

13.5.1 Applies to Senate or House Instruments.
If an annual fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Senate Finance

6.8F Applies to Senate or House Instruments.
If an annual General Fund fiscal cost \geq \$100,000, then the bill is dual referred to:
Dual Referral to Appropriations

13.5.2 Applies to Senate or House Instruments.
If an annual tax or fee change \geq \$500,000, then the bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

6.8G Applies to Senate Instruments only.
If a net fee decrease occurs or if an increase in annual fees and taxes \geq \$500,000, then the bill is dual referred to:
Dual Referral: Ways and Means