


**2017 REGULAR SESSION
ACTUARIAL NOTE HB 35**

<p>House Bill 35 HLS 17RS-561 Engrossed</p> <p>Author: Representative Barbara Carpenter Date: May 1, 2017 LLA Note HB 35.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG NO IMPACT 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 the offset of disability retirement benefits of members of the Firefighters' Retirement System based on receipt of workers' compensation benefits.

Cost Summary:

The estimated actuarial and fiscal impact of HB 35 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings 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		\$0
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		\$0
	Fiscal Costs	
Five Year Fiscal Cost Pertaining to:	Expenses	Revenues
The Retirement Systems	\$0	\$0
Other Post-Employment Benefits	0	0
Other Government Entities	<u>0</u>	<u>0</u>
Total	\$0	\$0

Bill Information

Current Law

Current law provides that when a Firefighters' Retirement System (FRS) member is entitled to a disability benefit from the retirement system and is also receiving workers' compensation benefits, the total of both benefits shall not exceed the member's monthly final average compensation.

If the sum of both benefits exceeds the firefighter's monthly final average compensation, the disability benefit payable from FRS is reduced. The reduced disability benefit will be calculated according to the following formula:

$$\text{Reduced Disability Benefit} = \frac{\text{The Original Disability Benefit}}{(\text{The Original Disability Benefit} + \text{The Workers' Compensation Benefit})} \times \text{Monthly Final Average Compensation}$$

Therefore, at times, the amount of the workers' compensation benefit will affect the amount of benefit payable by FRS.

Under current law, a workers' compensation insurer is allowed to reduce the amount it pays to a disabled worker by the amount payable by FRS to the injured worker. The reduction to the workers' compensation benefit is based on the full benefit payable by FRS before any reduction that FRS might apply because of the existence of the workers' compensation benefit.

Therefore, an injured firefighter who is collecting a workers' compensation benefit and a disability benefit from FRS may have both benefits reduced.

To properly administer current law, both FRS and the worker's compensation carrier must exchange relevant data pertaining to all persons who are disabled retirees of FRS. Currently, the disabled retiree provides FRS with the amount he is receiving from

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worker's compensation. This data must be notarized or certified to be accepted by FRS. An exchange of data between FRS and the workers' compensation insurers does not occur. FRS has been unsuccessful in getting the insurers to respond to his requests for a contact person to whom he could send FRS data. As a result, FRS does not have a secondary source confirming the accuracy of the information supplied by the disabled firefighter.

In an ideal world, FRS would electronically exchange benefit information with workers' compensation insurers on an annual basis, or more frequently if necessary for effective administration of benefit integration between FRS and the insurance carriers.

1. FRS would send a list of the names and social security numbers of all members of FRS that are being paid a disability benefit. For each such member, FRS would provide the insurer with the original FRS disability benefit amount.
2. FRS would ask the insurers for a list of all FRS retirees who are also collecting workers' compensation benefits and the amount being paid by workers' compensation. Using this list, FRS would be able to determine the amount of benefit reduction and the amount of the reduced disability benefit that FRS should actually be paying.
3. FRS would then provide the insurer with a list of FRS retirees receiving workers' compensation benefits. The original disability benefit payable by FRS to each identified retiree and the reduced disability benefit payable to each identified FRS retiree. Using this list, the insurer would be able to properly calculate its offset for the FRS disability benefit.

Proposed Law

HB 35 requires the following:

1. FRS must report to the workers' compensation insurer on or before May 31, the name, social security number, and the amount of benefit reduction for the forthcoming fiscal year calculated by FRS for every disability retiree.
2. The insurer has until June 30 of the same calendar year to challenge any reduction calculation.
3. If the insurer fails to challenge any benefit calculation by June 30, then it shall be presumed correct.

Implications of the Proposed Changes

HB 35 does not directly change any benefit calculation made by FRS. However, if workers' compensation insurer pays more attention to the calculations made by FRS, more errors are apt to be found. These errors could potentially favor the disabled worker or could result in a further reduction of his benefit.

Of greater importance to FRS, HB 35 limits by statute the time period available to an insurer to challenge a calculation that has been made by FRS.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs (Prepared by 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.

1. Retirement Systems

To help us understand the importance of HB 35 to FRS, Steven Stockstill, the Director of the system, expressed the following opinions in a telephone conversation on March 6, 2017 with Jim Rizzo and Paul Richmond. These opinions are not verbatim quotations but rather are paraphrases of the opinions he gave to us.

- a. FRS is confident that it obtains sufficient information from its disabled retirees to document its calculations of the original and reduced disability benefit. However, the system acknowledges that a second source, the insurers, would improve its level of confidence.
- b. FRS is not confident that the insurer is reducing the workers' compensation benefit to the fullest amount allowed. FRS has not been able to get the insurers to provide the workers' compensation benefits paid to FRS disability retirees. It's not that the insurers say they won't give the information; but rather, the insurers just do not respond. Over many years, FRS has rarely, if ever, been questioned by an insurer about the FRS disability benefit. Therefore, either the insurer has found another source for the data or it is not calculating or applying a reduction.
- c. FRS believes it bears a legal risk for the accuracy of its calculations sent to the insurer. It appears that the insurer may not be giving proper attention to the benefit calculations supplied by FRS. Therefore, FRS would like to mitigate its risk by limiting the length of time for an insurer to make a claim.

The actuarial present value cost or savings for HB 35 associated with the retirement systems is estimated to be \$0. Our analysis is summarized below.

- a. HB 35 does not change the disability benefit amount payable from FRS. It merely establishes an administrative procedure for regularly reporting disability benefits to payors of workers' compensation benefits.

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- b. The administrative procedures may result in the discovery of more calculation errors. If so, correction of those errors could favor FRS or could favor the disabled firefighter. The expectation is that potential gains from the correction of errors would offset potential losses
- c. The establishment of a deadline for challenging the accuracy of benefit calculations could also result in gains that would be offset by losses.
- d. The establishment of a deadline for challenging the accuracy of benefit calculations will eliminate lawsuits beyond the deadline date.

2. Other Post-Employment Benefits (OPEB)

The actuarial present value cost or savings for HB 35 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

OPEB benefits for FRS retirees do not depend on the amount of the disability benefit nor on any of the other factors required to be reported in compliance with HB 35.

3. Other Government Entities

The actuarial present value cost or savings for HB 35 associated with government entities other than those identified in HB 35, is estimated to be \$0. See Section II; Subsection C for more information.

**B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)**

Unless indicated otherwise, the actuarial note for HB 35 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.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in HB 35 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 35 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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

There are no fiscal costs or savings associated with HB 35. There is no benefit change. Nor are there any changes in administrative costs or savings

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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	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

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

1. Narrative

Table B shows the estimated fiscal impact of HB 35 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.

As shown in Table B, HB 35 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

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	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

**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 35 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.

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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 effects on fiscal costs and revenues related to other government entities during the five year measurement period are 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 districts) as a result of this measure. The bill requires the Firefighters’ Retirement System to submit certain member information to workers’ compensation payors on or before May 31st each year, and allows the payor to object to the member’s benefit payable reduction in writing to the system. 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 districts) as a result of this measure. The bill requires the Firefighters’ Retirement System to submit certain member information to workers’ compensation payors on or before May 31st each year, and allows the payor to object to the member’s benefit payable reduction in writing to the system. 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 All Government Entities (Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of HB 35 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.

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	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

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Credentials of the Signatory Staff:

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 35 contains a retirement system benefit provision having an actuarial cost.

HB 35 by itself does not have any benefit provisions having an actuarial cost. It is possible, however, for a cost or savings to occur for an individual member of FRS as FRS staff complies with the requirements of HB 35. However, this cost or savings is attributable to administration; not HB 35.

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