2017 REGULAR SESSION
ACTUARIAL NOTE HB 9

House Bill 9 HLS 17RS-334
Engrossed

Author: Representative Mark Abraham
Date: May 1, 2017
LLA Note HB 9.02

Organizations Affected:
Firefighters' Retirement System

EG NO IMPACT APV

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.

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Manager Actuarial Services

Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to earnable compensation in the Firefighters' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of HB 9 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		$0
Other Post-Employment Benefits (OPEB		0
Other Government Entities		0
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	0	0
Total	$0	$0

Bill Information

Current Law

Under current law, "earnable compensation" is defined as the full amount of compensation earned by an employee on a regular tour of duty, including supplemental pay paid by the state of Louisiana, but shall not include overtime.

Proposed Law

HB 9 retains the current law but adds to the following pay to the definition of "earnable compensation".

1. Educational incentive pay,
2. Holiday pay,
3. Seniority incentive pay,
4. And pay to an employee acting in a civil service classification higher than one holds.

Implications of the Proposed Changes

The Louisiana Supreme Court recently ruled in Dunn vs. the City of Kenner that "earnable compensation" should include the amounts identified above. HB 9 merely codifies into law the recent ruling by the Supreme Court.

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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

The actuarial present value cost of HB 9 associated with the retirement systems is estimated to be $0. Our analysis is summarized below.

There are no actuarial present value costs or savings associated with HB 9 because the bill merely codifies the "earnable compensation" ruling made by the Louisiana Supreme Court. No individual will receive either a larger benefit or a smaller benefit than what he would receive if HB 9 is not enacted.

2. Other Post-Employment Benefits (OPEB)

The actuarial present value cost of HB 9 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

There are no actuarial present value costs or savings associated with HB 9. HB 9 changes the system's definition of "earnable compensation" and has no effect on the amount of OPEB benefits available to the FRS member.

3. Other Government Entities

The actuarial cost of HB 9 associated with government entities other than those identified in HB 9, is estimated to be $0. Our analysis is summarized below.

Actuarial present value costs associated with *other government entities* may be derived from two sources:

1. Costs or savings indirectly attributable to other government entities, and

2. Administrative costs or savings associated with FRS and its sponsors.

There are no costs or savings attributable to other government agencies or to FRS or its sponsors because HB 9 does not change any benefit or administrative practice. The court's decision produced no relevant costs or savings, if any; the enactment of HB 9 will enact into law the decision already made by the court.

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

Unless indicated otherwise, the actuarial note for HB 9 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 9 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 9 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.

For reasons cited above under the ***actuarial analysis section***, HB 9 will have no fiscal impact on the retirement systems, on OPEB, or on other 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	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 9 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.

For reasons cited above under the ***actuarial analysis section***, HB 9 will have no fiscal impact on OPEB or its sponsors.

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 9 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.

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

HB 9 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

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. This bill clarifies the definition of "earnable compensation" as it relates to the Firefighters' Retirement System to make the definition reflect the ruling from a recent La. Supreme Court case on earnable compensation (Dunn v. City of Kenner). 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. This bill clarifies the definition of "earnable compensation" as it relates to the Firefighters' Retirement System to make the definition reflect the ruling from a recent court case on earnable compensation (Dunn v. City of Kenner). 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. <u>Estimated Fiscal Impact: All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of HB 9 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 9 contains a retirement system benefit provision having an actuarial cost.

Note: No member of FRS will receive a larger benefit with the enactment of HB 9 than what he would have received without HB 9.

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

☐ 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:

Dual Referral: Senate Finance

☐ 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

☐ 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:

Dual Referral to Appropriations

☐ 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:

Dual Referral: Ways and Means