2017 REGULAR SESSION
ACTUARIAL NOTE HB 11

House Bill 11 HLS 17RS-269 **Enrolled** **Author: Representative Taylor F. Barras** **Date: May 30, 2017** **LLA Note HB 11.04** **Organizations Affected:** **Louisiana Assessors' Retirement Fund** **EN INCREASE 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.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT/ASSESSORS: Provides relative to Back-DROP benefits of the Assessors' Retirement Fund.

<u>Cost Summary:</u>

The estimated actuarial and fiscal impact of HB 11 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.

<u>Estimated Actuarial Impact:</u>

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:		**<u>Actuarial Cost</u>**
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB		0
Other Government Entities		<u>0</u>
Total		Increase
	<u>Fiscal Cost</u>	
Five Year Fiscal Cost Pertaining to:	**<u>Expenses</u>**	**<u>Revenues</u>**
The Retirement Systems	Increase	$70,000
Other Post-Employment Benefits	0	0
Other Government Entities	<u>0</u>	<u>0</u>
Total	Increase	$70,000

<u>Bill Information</u>

Current Law

Current law provides a Back-Deferred Retirement Option (Back-DROP) for the members of the Louisiana Assessors' Retirement Fund (ASSR) who delay retirement beyond the normal retirement date. Under this option the benefit amount is based on age, service, final average compensation, and plan provisions ***as of the first date of the member's Back-DROP period***. In addition to monthly benefits beginning at the delayed retirement date, such a member receives a lump sum payment for ***the benefits he would have received during the Back-DROP period***. Surviving spouses of retirement-eligible members of ASSR are not eligible to elect Back-DROP.

Proposed Law

HB 11 will allow surviving spouses of retirement-eligible members of ASSR to elect Back-DROP when applying for survivor benefits.

Implications of the Proposed Changes

HB 11 will provide the Back-DROP opportunity for surviving spouses of retirement-eligible members of ASSR.

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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

HB 11 is expected to increase the actuarial present value cost of ASSR, but the cost increase is expected to be small. Our analysis is summarized below.

The Back-DROP option will potentially lead to anti-selection. A surviving spouse under HB 11will be selecting between the following benefit options.

1. A monthly survivor’s benefit based on the service and final average compensation of the member on his date of death, or

2. A monthly survivor’s benefit that includes a monthly benefit and a lump sum benefit. More specifically:

   a. The monthly benefit is calculated based on the member’s service and final average compensation as if the member had retired at the beginning of the Back-DROP period selected by the surviving spouse; had selected the 100% joint and survivor form of benefit; and had died immediately after retirement.

   b. The lump sum payment is the accumulation of the monthly benefits that would have been payable to the member during the Back-DROP period had he not died.

A Back-DROP survivor’s benefit provides an opportunity for anti-selection in some circumstances. Suppose a surviving spouse is in poor health. The Back-DROP option could conceivably have more value to her than the 100% joint and survivor benefit.

However, the increase in the present value of future benefit payments is expected to be small because:

1. This option is only available if a member dies after normal retirement date and before actually retiring or before electing the DROP program himself. This limits the window of time under which this form of survivor’s benefit is available.

2. The Back-DROP period is the lesser of the period since the member’s normal retirement date or 36 months. This limits the amount that can be taken as a lump sum.

The actuary for ASSR (G. S. Curran & Company, Ltd) has estimated that HB 11 will increase the employer contribution rate by 0.04% of pay, or about $17,500 a year.

Other Post-Employment Benefits (OPEB)

The *actuarial present value cost* of HB 11 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to ASSR retirees by the Office of Group Benefits or other insurers remains the same regardless of the benefit options available to the surviving spouse.

Other Government Entities

The actuarial cost of HB 11 associated with government entities other than those identified in HB 11, 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 11 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report 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 11 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 11 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. <u>Estimated Fiscal Impact – Retirement Systems</u>
(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.

Fiscal Cost for the Retirement System 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	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	17,500	17,500	17,500	17,500	70,000
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	17,500	17,500	17,500	17,500	70,000
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	$ 17,500	$ 17,500	$ 17,500	$ 17,500	$ 70,000

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. A precise cost or savings cannot be determined because the actual cost or savings depends upon many factors including the selection pattern of surviving spouses.

The actuary for ASSR (G. S. Curran & Company, Ltd) has estimated that HB 11 will increase the employer contribution rate by 0.04% of pay, or about $17,500 a year. However, we cannot determine with any degree of reliability the estimated increase in annual benefit payments.

2. Expenditures:

   a. Agy Self-Generated Expenditures will increase under HB 11 because ASSR will distribute more in benefits each year under HB 11 than it will under current law.

   b. Expenditures from Local Funds will increase under HB 11 because plan sponsors will contribute more per year, on average, to ASSR with the enactment of HB 11 than would have been contributed under current law.

3. Revenues:

   a. ASSR revenues (Agy Self-Generated) will increase each year if HB 11 is enacted because plan sponsors will contribute more per year to ASSR under HB 11 than would have been contributed under current law.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

Table B shows the estimated fiscal impact of HB 11 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.

HB 11 will not affect any fiscal costs relative to OPEB because the liability for post-retirement medical insurance protection provided to ASSR retirees by the Office of Group Benefits or other insurers remains the same regardless of the benefit options available to the surviving spouse.

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 11 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

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 direct material effect on the expenditures of individual Assessors' Offices as a result of this measure. The bill allows the surviving spouse to elect to collect benefits in the same manner that Back-Deferred Retirement Option Program benefits would be administered. Based on information from the Assessors' Association, it appears that the administrative processes involved with this benefit election are the same for the surviving spouse as it would be for the contributing member (as provided for under current law). Therefore, this bill will have no fiscal impact on expenditures of individual Assessors' Offices.

3. Revenues:

There is no anticipated direct material effect on the revenues of individual Assessors' Offices as a result of this measure. The bill provides for Back-Deferred Retirement Option Program benefits payable to surviving spouses of members and, therefore, this bill will have no fiscal impact on revenues.

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 11 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	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	17,500	17,500	17,500	17,500	70,000
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	17,500	17,500	17,500	17,500	70,000
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	$ 17,500	$ 17,500	$ 17,500	$ 17,500	$ 70,000

<u>Credentials of the Signatory Staff:</u>

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.

<u>Information Pertaining to Article (10)(29(F) of the Louisiana Constitution</u>

[X] HB 11 contains a retirement system benefit provision having an actuarial cost.

The benefit of some individual surviving spouses of ASSR will be larger if HB 11 is enacted than it would be without HB 11.

<u>Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:</u>

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

<u>Senate</u>

[ ] 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

<u>House</u>

[ ] 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