


**2017 REGULAR SESSION  
ACTUARIAL NOTE HB 32**

<p>House Bill 32 HLS 17RS-352 Enrolled</p> <p><b>Author: Representative J. Kevin Pearson</b> <b>Date: May 30, 2017</b> <b>LLA Note HB 32.03</b></p> <p><b>Organizations Affected:</b> <b>Municipal Employees' Retirement System</b></p> <p><b>EN NO IMPACT APV</b></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;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/MUNICIPAL EMP: Provides relative to the board of trustees of the Municipal Employees Retirement System of Louisiana.

**Cost Summary:**

The estimated actuarial and fiscal impact of HB 32 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.

<b>Actuarial Costs Pertaining to:</b>	<b><u>Actuarial Cost</u></b>	
The Retirement Systems		\$0
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		\$0
	<b><u>Fiscal Costs</u></b>	
<b>Five Year Fiscal Cost Pertaining to:</b>	<b><u>Expenses</u></b>	<b><u>Revenues</u></b>
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 the Municipal Employees Retirement System (MERS) board of trustees is composed of 11 trustees. Six of the trustees are elected by the active and contributing members. Information relevant to these members is summarized below:

1. **Three** trustees must be active and contributing members of the system and must be an elected official. These trustees are elected by all active and contributing members.
2. **Three** trustees must be active and contributing members of the system and must not be an elected official. These trustees are elected by all active and contributing members.

The remaining five trustees are the president of the LMA, the chairman of the Senate Committee on Retirement, a member of the House Committee on Retirement, the commissioner of administration, and the state treasurer.

**Proposed Law**

Proposed law provides that the MERS board will continue to have 11 trustees. Rules pertaining to trustees currently elected by system members will be phased out over time and new rules will apply. The new rules are summarized below.

1. **Three** trustees must be elected officials. They may be active and contributing members or they may be retired members. These trustees will be elected by all members of MERS.

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2. **Two** trustees must not be elected officials. They may be active and contributing members or they may be retired members. These trustees will be elected by all members of MERS.
3. **One** trustee must be a retiree. It is immaterial whether the retiree is an elected official or is an official who has not been elected to office. This trustee will be elected by retired members.

The remaining five trustees are the president of the LMA, the chairman of the Senate Committee on Retirement, a member of the House Committee on Retirement, the commissioner of administration, and the state treasurer – the same as under current law.

**Implications of the Proposed Changes**

As a result of HB 32, any member (active or retired) will be eligible to become one of the five trustees of MERS. These five trustees will be elected by all members of the system. And, one retiree, elected by retired members only, must be elected to the MERS board of trustees.

**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 cost of HB 32 associated with the retirement systems is estimated to be \$0. Our analysis is summarized below.

HB 32 only changes the composition of the board of trustees and therefore does not have any effect on the actuarial cost of the system, with the following possible exception. R.S.11:181 (D) provides a per diem of seventy-five dollars per day plus the normal expense allowance allowed state employees by the division of administration. A retired member serving on the MERS board would qualify for the per diem and normal expense allowance. If an active member who is not an elected official also qualifies for the per diem and normal expense allowance, then there is no increase in administrative expense. On the other hand, if an active member does not qualify for the per diem then there would be an increase in administrative expense due to replacing an active member with a retired member. Since administrative expenses are included in the Normal Cost of the System, the actuarial cost of the System would increase slightly.

**2. Other Post-Employment Benefits (OPEB)**

The actuarial cost of HB 32 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 retirees by the Office of Group Benefits or other insurers is not affected by the board's composition since OPEB benefits are not provided to the members of the board.

**3. Other Government Entities**

The actuarial cost of HB 32 associated with government entities other than those identified in HB 32, is estimated to be \$0. Our analysis is summarized in Section II; Subsection C.

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

Unless indicated otherwise, the actuarial note for HB 32 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 32 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 32 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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**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.

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

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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 32 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.

**OPEB Fiscal Cost: Table B**

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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 32 on such government

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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**

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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 individual municipalities as a result of this measure.** The bill replaces one non-elected active and contributing member trustee with a retiree trustee. Based on information from the Municipal Employees’ Retirement System, there would be no fiscal impact to municipalities. Also, a Louisiana Municipal Association representative indicated that this measure would result in no indirect material fiscal impact to the individual municipalities.

3. Revenues:

**There is no anticipated indirect material effect on the revenues of individual municipalities as a result of this measure.** The bill replaces one non-elected active and contributing member trustee with a retiree trustee and, therefore, this bill will have no fiscal impact on revenues.

**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 32 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)**

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>5 Year Total</b>
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 32 contains a retirement system benefit provision having an actuarial cost.

Provisions of HB 32 only pertain to administration of the retirement system.

**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**