


2018 REGULAR SESSION  
ACTUARIAL NOTE HB 31

<b>House Bill 31 HLS 18RS-259</b> <b>Original</b>  <b>Author: Representative Pearson</b> <b>Date: February 27, 2018</b> <b>LLA Note HB 31.01</b>  <b>Organizations Affected:</b> <b>Municipal Employees' Retirement</b> <b>System of Louisiana</b>  <b>OR NO IMPACT APV</b>	<b>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.</b>   <b>Paul T. Richmond, ASA, MAAA, EA</b> <b>Manager Actuarial Services</b>
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**Bill Header:** RETIREMENT/MUNICIPAL EMP: Provides for the benefit payable to a retired member of the Municipal Employees' Retirement System of Louisiana upon death of beneficiary.

**Cost Summary:**

The estimated actuarial and fiscal impact of HB 31 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.

<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>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**

The normal form of benefit under current law is a life annuity. The benefit determined in accordance with the retiree’s age service and final average earnings will be paid to the retiree for his life. The benefit will cease upon the retiree’s death. No benefits are payable to any other person.

The following optional forms of benefit are available to a member:

Option 2 – A 100% joint and survivor benefit which is the actuarial equivalent of the life annuity benefit. A reduced monthly benefit will be paid for as long as either or both the retiree and/or designated beneficiary is alive. The benefit ceases upon the death of the retiree or upon the death of the beneficiary if it occurs later than the death of the retiree.

Option 3 – A 50% joint and survivor benefit which is the actuarial equivalent of the life annuity benefit. A reduced monthly benefit will be paid to the retiree for as long as he is alive. If his designated beneficiary is alive when the retiree dies, 50% of the monthly benefit the retiree was receiving will be paid to the designated beneficiary until his or her death.

Option 4 – A benefit payable to a retiree or to the person or persons nominated by the retiree, provided that the Option 4 benefit is actuarially equivalent to the life annuity benefit.

**Proposed Law**

HB 31 adds Option 4.2 and Option 4.3 to the optional forms of benefit that a retiree may select.

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Option 4.2 – A benefit that is similar to the Option 2 benefit with the exception that if the beneficiary dies before the retiree, the retiree’s benefit “pops-up” to the life annuity benefit amount. Option 4.2 benefit amounts will be actuarially equivalent to the life annuity benefit.

Option 4.3 – A benefit that is similar to the Option 3 benefit with the exception that if the beneficiary dies before the retiree, the retiree’s benefit “pops-up” to the life annuity benefit amount. Option 4.3 benefit amounts will be actuarially equivalent to the life annuity benefit.

### **Implications of the Proposed Changes**

HB 31 adds Option 4.2 and Option 4.3 which are actuarially equivalent to the life annuity benefit.

## **I. ACTUARIAL ANALYSIS SECTION**

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

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

#### **1. Retirement Systems**

The actuarial cost or savings of HB 31 associated with the retirement systems is estimated to be \$0. The actuary’s analysis is summarized below.

HB 31 provides two additional optional forms of benefit which are actuarially equivalent to the retirement allowance payable as a life annuity. Because the new option benefit forms are actuarially equivalent to the life annuity benefit, there is no actuarial cost associated with HB 31.

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

The actuarial cost or savings of HB 31 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. The actuary’s analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by new optional forms of benefit.

#### **3. Other Government Entities**

The actuarial cost or savings of HB 31 associated with government entities other than those identified in HB 31 is estimated to be \$0.

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

Unless indicated otherwise, the actuarial note for HB 31 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 the LLA)**

There is nothing in HB 31 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 associated with government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings in Table A include administrative costs associated with the retirement systems and the sponsoring government entities. The total effect of HB 31 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.

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**Retirement System Fiscal Cost: Table A**

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</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>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</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

HB 31 will have no effect on retirement related fiscal costs and revenues during the five year measurement period.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 31 on actuarial 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 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>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</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>2018-19</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-23</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

HB 31 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

**C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)**  
**(Prepared by Bradley Cryer, Assistant Legislative Auditor)**

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 31 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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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 31 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

This bill is not expected to have a fiscal impact.

3. Revenues:

This bill is not expected to have a fiscal impact.

**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities**  
**(Prepared by the LLA)**

1. Narrative

Table D shows the estimated fiscal impact of HB 31 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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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	2018-19	2019-2020	2020-2021	2021-2022	2022-23	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

**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.

Bradley Cryer, Assistant Legislative Auditor, has supervised the preparation of the fiscal analyses contained herein.

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

☐ HB 31 contains a retirement system benefit provision having an actuarial cost.

No member of MERS will receive a larger benefit with the enactment of HB 31 than what he would have received without HB 31.

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 2018 regular session.

Senate		House	
<input type="checkbox"/>	13.5.1 Applies to Senate or House Instruments. If an annual fiscal cost $\geq$ \$100,000, then bill is dual referred to: <b>Dual Referral: Senate Finance</b>	<input type="checkbox"/>	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: <b>Dual Referral to Appropriations</b>
<input type="checkbox"/>	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: <b>Dual Referral: Revenue and Fiscal Affairs</b>	<input type="checkbox"/>	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: <b>Dual Referral: Ways and Means</b>