2018 REGULAR SESSION
REVISED ACTUARIAL NOTE SB 8

Senate Bill 8 SLS 18RS-39
Original

Author: Senator Peacock
Date: March 12, 2018
LLA Note SB 8.01

Organizations Affected:
Municipal Police Employees' Retirement System

OR DECREASE 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, ASA, MAAA, EA
Manager Actuarial Services

Bill Header: MUNICIPAL POL EMPS RET: Provides for the classification of membership.

Cost Summary:

The estimated actuarial and fiscal impact of SB 8 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		Decrease
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Decrease
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Decrease	Decrease
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Decrease	Decrease

This bill is subject to the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

Current Law

Current law and administrative practices of the Municipal Police Employees' Retirement System (MPERS) pertaining to membership in the system are summarized below.

A member who joins MPERS on or after January 1, 2013, is considered to be a post-2013 ***non-hazardous*** duty member or a post-2013 ***hazardous duty*** member depending on his employment position. However, if the new member had been a member prior to January 1, 2013 and had terminated employment before January 1, 2013, then the following rules apply.

1. A Member Who Returns to Employment in a ***Non-Hazardous*** Duty Position
   a. Such a member (hazardous duty or non-hazardous duty) may return his refunded contributions to the system and have his date of employment back dated. He would then be eligible for the benefit formula applicable to pre-2013 members.
   b. Such a member may elect not to return his refunded contributions to the system. He will become a member of the ***non-hazardous*** duty sub plan for post-2013 members. He will receive no credit for his pre-2013 service.
2. A member Who Returns to Employment in a ***Hazardous Duty*** Position.
   a. Such a member may return his refunded contributions to the system and have his date of employment back dated. He would then be eligible for the benefit formula applicable to pre-2013 members.

b. Such a member may elect not to return his refunded contributions to the system. He will become a member of the ***hazardous*** duty sub plan for post-2013 members. He will receive no credit for his pre-2013 service.

Also under current administrative practices, a member of MPERS who is participating in Peace Officer Standards and Training (POST training) is considered to be a ***hazardous*** duty member.

Proposed Law

Any member of MPERS who was first employed prior to January 1, 2013 in a position making him eligible to participate in MPERS; who terminated employment and received a refund of his own contributions without interest; and who then return to employment on or after January 1, 2013, shall enter MPERS as a new member. He will be classified as a Post-2013 ***non-hazardous*** duty sub plan member or a ***hazardous duty*** sub plan member depending on the classification of his new position.

SB 8 provides that a member of MPERS participating in POST training will be considered to be a ***hazardous*** duty member of the system. This provision of SB 8 is merely a clarification of existing law and administrative practices.

Implications of the Proposed Changes

Relatively minor changes in the law are made to limit benefits potentially available to future member of MPERS who were employed and terminated employment prior to January 1, 2013. SB 8 also codifies administrative practices associated with the membership rights of those who have been employed and are participating in the POST certification program.

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 present value cost of SB 8 associated with the retirement systems will decrease. Our analysis is summarized below.

It is anticipated that some former members who left and took refunds will return to employment and again become members of MPERS. Under current law, such members will be considered hazardous duty members regardless of the position in which they are now employed. Under SB 8, such members will be required to be either a hazardous duty or non-hazardous duty member depending on whether or not the new position requires POST certification. As a result of SB 8, some members will lose their right to rejoin MPERS as a hazardous duty member. Because benefit provisions for non-hazardous duty members are not as robust as provisions for hazardous duty personnel, these provision of SB 8 will cause actuarial costs to decrease.

MPERS experiences an actuarial loss whenever an employee under current law is given prior service credits in exchange for repayment of his contributions. Under SB 8, the actuarial loss will decrease because an employee will be required to repay his contributions plus interest. The result is a decrease in the actuarial cost associated with SB 8(i.e., the actuarial loss is smaller than it would have been otherwise). The net effect is a decrease in actuarial costs.

Under SB 8, members who are participating in the POST certification programs earn pension credits as a hazardous duty member. This provision of SB 8 codifies current administrative practices. There is no actuarial cost associated with this provision of SB 8.

The net effect of SB 8 will be a decrease in actuarial cost. Insufficient information is available to measure such cost decrease with any degree of precision.

2. Other Post-Employment Benefits (OPEB)

The actuarial present value cost of SB 8 associated with OPEB, including retiree health insurance premiums, is expected to decrease slightly. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by considering returning members as new members and allowing employees in training to become members of the Hazardous Duty sub plan. If anything, there could be a slight decrease if disallowing returning employees from buying back their past service at the pre-2013 benefit rate causes them to work longer before retiring. However, these fiscal events are not likely to occur within the five year measurement period.

3. Other Government Entities

The actuarial cost of SB 8 associated with government entities other than MPERS and its sponsors is estimated to be $0.

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

Unless indicated otherwise, the actuarial note for SB 8 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 SB 8 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 SB 8 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by the 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. Fiscal costs and savings include both administrative and actuarial costs and savings. 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.

Retirement System Fiscal Cost: Table A

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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

SB 8 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from MPERS (Agy Self-Generated) will decrease to the extent that smaller benefits will be paid.

   b. Expenditures from the Local Funds will decrease because benefits will decrease and employer contribution requirements will decrease.

3. Revenues:

   a. MPERS revenues (Agy Self-Generated) will decrease because employer contribution requirements will decrease.

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

1. Narrative

Table B shows the estimated fiscal impact of SB 8 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

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

SB 8 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

C. <u>Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)</u>
(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 (administrative and actuarial) of SB 8 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	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

SB 8 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

   a. This bill is not expected to have a fiscal impact.

3. Revenues:

a. This bill is not expected to have a fiscal impact.

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 SB 8 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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease

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.

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

[X] SB 8 contains a retirement system benefit provision having an actuarial cost.

Benefits under some circumstances will be larger with the enactment of SB 8 than they would be without its enactment.

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

[ ] 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