


**2018 REGULAR SESSION
ACTUARIAL NOTE HB 30**

<p>House Bill 30 HLS 18RS-257 Original</p> <p>Author: Representative Pearson Date: March 8, 2018 LLA Note HB 30.01</p> <p>Organizations Affected: Municipal Employees' Retirement System of Louisiana</p> <p>OR DECREASE APV</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;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/MUNICIPAL EMP: Provides for the definitions of minor child and disability relative to the Municipal Employees' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 30 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

Bill Information

Current Law

Current law for the Municipal Employees' Retirement System (MERS) defines "disability" as a condition which in the determination of the board renders an employee permanently and totally disabled, by bodily injury or disease, from performing the duties and responsibilities of his position; excluding disabilities caused directly or indirectly by specified actions or events.

Current law defines "minor child" as a child born of the marriage or adopted child of a member who has not attained the age of eighteen or who had a disability at the time of the member's death and who remains disabled.

Proposed Law

HB 30 will change the definition of "disability" to provide that it must render the member incapable of any employment rather than render the member incapable of performing the duties and responsibilities of his position.

HB 30 will also change the definition of "minor child" to an unmarried child under the age of eighteen years or a child who had a disability at the time of the member's death and who remains disabled. In addition, "child" is defined as the issue of a marriage of a member, the legally adopted child of a member, the natural child of a female member, or the child of a male member if a court declares paternity or the father has formally acknowledged the child.

Implications of the Proposed Changes

HB 30 narrows the definition of disability, which will make it more difficult to qualify for the disability benefit. Furthermore, for those who do qualify as disabled, it will be more difficult to remain qualified. Under the current definition a disability benefit recipient can get another job, have the system disability benefit reduced or suspended, then leave the job and resume collecting the full

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disability benefit again. Based on the definition in HB 30 a person in a similar situation would lose the disability benefit once he is reemployed and would not be eligible to resume the benefit later.

HB 30 expands the definition of minor child, which may increase the number of minor children who qualify as surviving children for purposes of pre-retirement death benefits. However, in practice the system was being challenged by members to cover children who qualify under the HB 30 definition already, so any cost due to this change is expected to be negligible

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 of HB 30 associated with MERS is expected to decrease. Our analysis is summarized below.

Narrowing the definition of disability will reduce the number of System members receiving disability benefits and actuarial costs of disability benefits will decrease in the future. Current law allows the board of trustees to discontinue benefits if it is determined that the member is engaged in or able to engage in gainful employment. However, reducing benefits is difficult in practice. Furthermore, current law makes it possible for the member to resume disability benefits when he is unemployed again. On the other hand, a disabled retiree under HB 30 must be totally incapable of any employment in order to receive or continue to receive benefits from the MERS. Therefore, actuarial costs associated with disability benefits are expected to decrease.

Expanding the definition of minor child may tend to increase the cost of pre-retirement death benefits. However, death benefits are only paid to minor children of members in Plan A, and the total death benefit payable to minor children is the same whether there are two or more than two minor children. So the expected **increase** in actuarial costs will be negligible.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 30 associated with OPEB, including retiree health insurance premiums, is expected to be \$0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by changing the definitions of “disability” and “minor child”.

3. Other Government Entities

The actuarial cost of HB 30 associated with government entities other than MERS is expected to be \$0.

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

Unless indicated otherwise, the actuarial note for HB 30 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 30 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 30 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 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	\$ 0	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

HB 30 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

- a. Expenditures from MERS (Agy Self-Generated) will decrease because there will be smaller disability benefits paid, slightly offset by a negligible increase in the pre-retirement death benefits.
- b. Expenditures from the Local Funds will decrease because employer contribution requirements will decrease.

3. Revenues:

- a. MERS revenues (Agy Self-Generated) will decrease since the employer contribution requirement will decrease.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 30 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.

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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

HB 30 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 (administrative or actuarial) of HB 30 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

HB 30 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

a. HB 30 is not expected to have a fiscal impact.

3. Revenues:

a. HB 30 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 30 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

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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	\$ 0	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

HB 30 contains a retirement system benefit provision having an actuarial cost.

Some MERS employees will receive a larger benefit with the enactment of HB 30 than they would have received without HB 30.

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

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