


**2018 REGULAR SESSION
REVISED ACTUARIAL NOTE SB 3**

<p>Senate Bill 3 SLS 18RS-65 Engrossed with Senate Retirement Committee Amendment #779</p> <p>Author: Senator Peacock Date: March 19, 2018 LLA Note SB 3.02</p> <p>Organizations Affected: Louisiana State Employees' Retirement System Sheriffs' Pension and Relief Fund</p> <p>EG INCREASE 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 BENEFITS: Provides for benefits for survivors of hazardous duty plan members killed by an intentional act of violence.

Cost Summary:

The estimated actuarial and fiscal impact of SB 3 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:		<u>Actuarial Cost</u>
The Retirement Systems		Increase
Other Post Employment Benefits (OPEB)		0
Other Government Entities		<u>0</u>
Total		Increase
Five Year Fiscal Cost Pertaining to:	<u>Expenses</u>	<u>Revenues</u>
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	<u>0</u>	<u>0</u>
Total	Increase	Increase

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

LASERS provides survivor benefits to members of LASERS who die while serving in a hazardous duty position. Such a benefit is payable if a member participating in one of the following sub plans dies while in the line of duty (or from the immediate effects of an injury received while in the line of duty:

1. Corrections Officers' sub plan,
2. Wildlife Officers' sub plan,
3. Public Safety Officers' sub plan,
4. Harbor Police Officers' sub plan, and the
5. Hazardous Duty Officers' sub plan.

The survivor benefit payable to the spouse and children is equal to a specified percentage of the member's average compensation at the time of death. The benefit is shared equally by the surviving spouse and children.

Proposed Law

SB 3 provides a special survivor benefit for a member of one of the five sub plans identified under the current law summary. The special survivor benefit is payable to the spouse and surviving children of an officer who is killed by *an intentional act of violence while in the line of duty (or from the immediate effects of an injury received by an intentional act of violence while in*

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the line of duty). The special survivor benefit is equal to 100% of the member's average compensation at the time of death. The benefit is shared equally by the surviving spouse and children. Special survivor benefits are in lieu of regular line of duty survivor benefits.

The LASERS board of trustees and the Sheriffs' Pension & Relief Fund (SPRF) board of trustees shall electronically notify all members of the legislature when a survivor benefit is granted as provided for in SB 3.

Implications of the Proposed Changes

A greater survivor benefit will be paid to the survivors of an eligible member who dies as a result of *an intentional act of violence while in the line of duty (or from the immediate effects of an injury received as a result of an intentional act of violence while in the line of duty)*.

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 3 associated with LASERS will increase. Our analysis is summarized below.

With the enactment of SB 3, special survivor benefits will be payable when a member of the specified sub plans of LASERS dies by an intentional act of violence while in the line of duty (or from immediate effects of an injury received by an intentional act of violence while in the line of duty). Special survivor benefits will be larger than regular line of duty survivor benefits. According to the system's most recent actuarial valuation, as of June 30, 2017, the five sub plans of LASERS identified in SB 3 had 4,752 active employees. Less than ten are expected to die from all causes during FYE 2019. While an intentional act of violence is not explicitly defined, it is reasonable to assume that a few of these deaths will fall in the special category and the system will pay a greater survivor benefit in those instances.

The ultimate cost of the special survivor benefit depends on the number of members of the identified sub plans of LASERS who die as a result of an intentional act of violence. The cost increase associated with SB 3 depends on the difference in cost between the special survivor benefit and the regular in line of duty survivor benefit. The cost of SB 3 also depends on the interpretation given to "intentional act of violence". A broad interpretation will encompass a larger number of special survivor benefits than will a narrower interpretation.

In conclusion, there is an actuarial cost associated with SB 3. We estimate the increase in cost to be \$0 to negligible.

2. Other Post-Employment Benefits (OPEB)

The actuarial present value cost of SB 3 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 an increase in the death benefit.

3. Other Government Entities

The actuarial cost of SB 3 associated with government entities other than those identified in SB 3, is estimated to be \$0.

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

Unless indicated otherwise, the actuarial note for SB 3 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 3 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

Tables A, B, C, and D have been prepared by the LLA. These tables include information developed by the LLA from its own sources as well as information supplied by Tanesha Morgan of the Legislative Fiscal Office (LFO). Table D includes all costs and savings pertaining to Louisiana government.

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The LFO has requested that the information supplied by Tanesha Morgan be included in the actuarial note verbatim and without any changes. This information is shown below under Fiscal Costs Developed by the LFO. The reader should note that complete fiscal cost information is contained within Table D. Fiscal costs developed by the LFO only reflect the portion of Table D that was supplied by the LFO.

Table A pertains to fiscal costs or savings associated with the retirement systems; Table B pertains to OPEB; Table C pertains to fiscal costs associated with government entities other than the retirement systems and sponsors. Table D is the cumulative sum of Tables A, B, and C.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by the LLA using information supplied by the LFO)**

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	Increase	Increase	Increase	Increase	Increase
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	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

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	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	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

The effect that SB 3 will have on retirement related fiscal costs and revenues during the five year measurement period is shown in Table A and in Items 2 and 3 below.

2. Expenditures:

- a. Expenditures from the General Fund will increase to the extent that employer contribution requirements for LASERS will increase to accommodate additional benefits paid to specified surviving spouses and children. These expenditures are expected to be \$0 to negligible.
- b. Expenditures from LASERS (Agy Self-Generated) will increase to the extent that larger benefits will be paid to specified surviving spouses and children.
- c. There will be implementation costs to LASERS to make minor software modifications to existing computer programs to identify the beneficiaries specified in the bill and update their benefit calculations. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.

3. Revenues:

- a. LASERS revenues (Agy Self-Generated) will increase to the extent that employer contributions for LASERS will increase to accommodate additional benefits payable to specified surviving spouses and children.
- b. Otherwise there is no anticipated direct material effect on revenues for LASERS and SPRF as a result of this measure.

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

1. Narrative

Table B shows the estimated fiscal impact of SB 3 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

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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 3 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 the LLA using information supplied by the LFO and 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 3 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 3 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

a. SB 3 has no effect on expenditures for any Louisiana government entity other than LASERS and SPRF and their sponsors.

3. Revenues:

a. SB 3 has no effect on revenues for any Louisiana government entity other than LASERS and SPRF and their sponsor

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**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 SB 3 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	Increase	Increase	Increase	Increase	Increase
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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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	0	0	0	0	0
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

Fiscal Costs Received by the LLA from the LFO

**Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Tanesha Morgan, Legislative Fiscal Office)**

1. Narrative

Present law provides that survivor benefits for the spouse and children of a member of Louisiana State Employees’ Retirement System’s (LASERS) hazardous duty service plan shall equal 80% of the member’s average compensation. Proposed law increases this to benefit to 100% of the member’s average compensation if the member’s death was a result of an intentional act of violence.

Fiscal Costs for Other Government Entities

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

3. Expenditures:

There will be implementation costs to LASERS to make minor software modifications to existing computer programs to identify the beneficiaries specified in the bill and update their benefit calculations. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.

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4. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

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.

John D. Carpenter, Legislative Fiscal Officer, and Bradley Cryer have supervised the preparation of the fiscal analyses contained herein.

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

SB 3 contains a retirement system benefit provision having an actuarial cost.

Survivor benefits under some circumstances will be larger with the enactment of SB 3 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

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