2018 REGULAR SESSION
ACTUARIAL NOTE HB 33

House Bill 33 HLS 18RS-262
Reengrossed with House Floor Amendments #1492

Author: Representative Pearson
Date: March 27, 2018
LLA Note HB 33.03

Organizations Affected:
Municipal Employees' Retirement System of Louisiana

RE NO IMPACT 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

Paul T. Richmond, ASA, MAAA, EA
Manager Actuarial Services

Bill Header: RETIREMENT/MUNICIPAL EMP: Provides for the payment of unfunded accrued liability by employers eliminating positions covered by the Municipal Employees' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 33 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		$0
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		$0
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

The Municipal Employees' Retirement System of Louisiana (MERS) currently covers approximately 150 employers. Each employer is required to sign an agreement of coverage for its employees in order to join the system. If an employer terminates the agreement of coverage of its employees, the employer is required to remit the portion of the frozen unfunded accrued liability which is attributable to the employer's participation in the system as of the June 30th immediately prior to the date of termination.

Proposed Law

HB 33 provides that if an employer terminates the agreement of coverage of its employees or eliminates an employee position or class of positions covered by the system by contracting with a private entity for the work formerly done by employees in eliminated positions, the employer will be required to remit the portion of the unfunded accrued liability which is attributable to the eliminated position(s) in the system as of the June 30th immediately prior to the date of privatization.

HB 33 also requires the system actuary to use the entry age normal funding method to calculate the unfunded accrued liability owed by the employer.

Implications of the Proposed Changes

Under current law, if employers eliminate positions covered by the system, the payroll base will be reduced and contribution rates will need to be increased on the remaining employers to generate the same level of income. This can lead to spiraling contribution requirements if participation in the system becomes more costly and less attractive to the remaining employers and to any non-participating employers who may wish to join. HB 33 will help protect the system against an erosion of the contribution base by requiring employers to pay a portion of the unfunded accrued liability when they terminate the agreement of coverage of its employees or eliminate employee positions due to a privatization of the work.

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 33 associated with the retirement systems is estimated to be $0. Our analysis is summarized below.

HB 33 does not change the timing or amount of ***benefits*** payable. It changes the level of employer contributions by requiring participating employers to pay a portion of the unfunded accrued liability when terminating the agreement of coverage of its employees or privatizing employee positions.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 33 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 is not affected by requiring participating employers to pay a portion of the unfunded accrued liability when terminating the agreement of coverage of its employees or privatizing employee positions.

3. Other Government Entities

The actuarial cost or savings of HB 33 associated with government entities other than those identified in HB 33, is estimated to be $0.

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

Unless indicated otherwise, the actuarial note for HB 33 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 33 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 33 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 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.

2018 REGULAR SESSION
ACTUARIAL NOTE HB 33

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	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	Increase	Increase	Increase	Increase	Increase	Increase
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	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

HB 33 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period. Table A was prepared assuming a privatization will occur in the 2018-19 fiscal year and the employer will elect 10 year amortization.

2. Expenditures:

   a. Expenditures from the Local Funds will increase to pay for a portion of the unfunded accrued liability existing on June 30th immediately prior to the date of termination of the agreement of coverage of its employees or privatization when eliminating employee positions.

      Over time employer costs will level out, since additional contributions in early years will prevent the need to collect larger amounts in later years.

   b. The bill will impact those participating employers that may consider privatizing employee positions or classes of positions by providing a disincentive to privatizing. That is, any savings anticipated from privatization would have to be weighed against the amount of unfunded liability payment that would offset the privatization savings. The net fiscal impact on expenditures cannot be accurately estimated for the five-year period.

3. Revenues:

   a. MERS revenues (Agy Self-Generated) will increase when the portion of the unfunded accrued liability is paid by the employers terminating the agreement of coverage of its employees or privatizing employee positions.

   For example, assume an employer in Part A has 60 employees, 12 of whom are in the utility department. Assume further that the frozen unfunded accrued liability attributable to an employer of this size is $900,000 and that 20% is attributed to the utility department employees. If the employer contracts with a private entity to provide this service, then the amount due when the employees leave the system would be $180,000 (20% of $900,000).

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

1. Narrative

   Table B shows the estimated fiscal impact of HB 33 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

HB 33 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 and actuarial) of HB 33 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 33 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 33 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	Increase	Increase	Increase	Increase	Increase	Increase
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	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

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 33 contains a retirement system benefit provision having an actuarial cost.

No member of MERS will receive a larger benefit with the enactment of HB 33 than what he would have received without HB 33.

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