


**2018 REGULAR SESSION  
ACTUARIAL NOTE HB 701**

<p>House Bill 701 HLS 18RS-700 Original</p> <p>Author: Representative Jackson Date: April 12, 2018 LLA Note HB 701.01</p> <p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>OR 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/STATE EMPS: Adds public defenders to the Louisiana State Employees' Retirement Systems.

**Cost Summary:**

The estimated actuarial and fiscal impact of HB 701 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>Actuarial Cost</b>
The Retirement Systems		Increase
Other Post Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
<b>Five Year Fiscal Cost Pertaining to:</b>	<b>Expenses</b>	<b>Revenues</b>
The Retirement Systems	Increase	Increase
Other Post Employment Benefits	0	0
Other Government Entities	0	0
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**

The following persons are not allowed to participate in the Louisiana State Employees Retirement System (LASERS):

1. An attorney employed – as an employee – by the Louisiana Public Defender Board (LPDB).
2. An attorney working under a contract – as a contractor – with the LPDB.
3. An attorney employed by a district indigent defender program (DIDP) – as an employee – and the DIDP does not have a plan for extending benefits to employees of such district approved by the Parochial Employees' Retirement System (PERS).
4. An attorney working under contract with a DIPD – as a contractor.

**Proposed Law**

HB 701 provides that the persons identified above under current law will become participants of LASERS effective July 1, 2018.

**Implications of the Proposed Changes**

A new group of persons will be allowed to become members of LASERS.

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**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 LASERS, with the LPDB, with the DIDP, with OPEB, and with other government entities.

**1. Retirement Systems**

The actuarial cost of HB 701 associated with the LASERS is expected to increase. Our analysis is summarized below.

The actuarial present value of future benefits payable from LASERS will increase. Adding members to LASERS will not change the amount or timing of benefit payments for current members of the system. However, the attorneys who will be allowed LASERS membership as a result of HB 701 will accrue retirement benefits and employee and employer contributions will be required to fund them. Therefore, LASERS' actuarial costs will increase as a result of HB 701.

The following information was provided to the Louisiana Legislative Auditor by the LPDB.

- a. Louisiana's indigent defender program is divided into 42 districts. Eleven districts have an approved plan of participation. Attorneys employed by the eleven districts are already covered under an approved plan. They will continue their participation in PERS. Attorneys hired in the future by one of the 11 districts will also participate in PERS.
- b. Attorney-employees and attorney-contractors of the LPDB do not currently participate in LASERS. There are 169 such attorneys who will become participants of LASERS should HB 701 be enacted. The data supplied to us indicated that another 96 attorneys may potentially become participants in LASERS. The data provided us was somewhat vague about whether these attorneys participate or do not participate in a state or statewide retirement program. Therefore the number of new participants in LASERS may range from 169 to 265. Note: the tables shown below are based on the mid-point of the range, or 217 new participants in LASERS.
- c. We assume that new members of LASERS had been participating in Social Security. Therefore, employer contributions in total will increase from 6.2% of pay to 37.9% of pay when the attorneys join LASERS, an increase of 31.7% of pay. Additional information taken from the data supplied is summarized below.

**Attorneys: Employees**

Number of New Members	178
Average Pay	\$ 53,705
Payroll	\$ 9,559,490
Increase in Employee Contribution Rate Paid to LASERS	8.0%
Increase in Employee Contributions Paid to LASERS	\$ 764,759
Employer Social Security Rate Paid to Social Security	6.2%
Increase in Employer Contributions paid to Social Security	\$ (592,688)
Employer Contribution Rate Paid to LASERS	37.9%
Increase in Employer Contributions Paid by Employers to LASERS	\$ 3,623,047
Increase in Employer Contribution Rates for Social Security and LASERS	31.7%
Increase in Employer Contributions Paid to LASERS	\$ 3,030,358
Increase in Employee and Employer Contributions Paid to LASERS	\$ 4,387,806

**Attorneys: Contractors**

Number of New Members	39
Average Pay	\$ 47,259
Payroll	\$ 1,843,101
Increase in Employee Contribution Rate Paid to LASERS	8.0%
Increase in Employee Contributions Paid to LASERS	\$ 147,448
Employer Social Security Rate Paid to Social Security	6.2%
Increase in Employer Contributions paid to Social Security	\$ (114,272)
Employer Contribution Rate Paid to LASERS	37.9%
Increase in Employer Contributions Paid by Employers to LASERS	\$ 698,535
Increase in Employer Contribution Rates for Social Security and LASERS	31.7%
Increase in Employer Contributions Paid to LASERS	\$ 584,263
Increase in Employee and Employer Contributions Paid to LASERS	\$ 845,983

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Attorneys: Total

Number of New Members	217
Average Pay	\$ 52,726
Payroll	\$ 11,441,542
Increase in Employee Contribution Rate Paid to LASERS	8.0%
Increase in Employee Contributions Paid to LASERS	\$ 915,323
Employer Social Security Rate Paid to Social Security	6.2%
Increase in Employer Contributions paid to Social Security	\$ (709,376)
Employer Contribution Rate Paid to LASERS	37.9%
Increase in Employer Contributions Paid by Employers to LASERS	\$ 4,336,344
Increase in Employer Contribution Rates for Social Security and LASERS	31.7%
Increase in Employer Contributions Paid to LASERS	\$ 3,626,969
Increase in Employee and Employer Contributions Paid to LASERS	\$ 5,251,667

- d. The actuarial present value of future benefit accruals will increase as a result of HB 701. The amount of the increase cannot be determined from the data available to us.

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

The actuarial cost of HB 701 associated with OPEB, including retiree health insurance premiums, is not expected to change. Post-employment benefit programs for the attorneys depend on the provision for such benefits within the Louisiana Public Defender Board or the district indigent defender program. The participation of an attorney in a post-employment benefit program does not necessarily depend on his or her participation in LASERS. Therefore, the actuarial cost of HB 701 relative to post-employment benefits is expected to be \$0.

**3. Other Government Entities**

Actuarial costs or savings for HB 701 associated with government entities other than LASERS and its sponsors is expected to be \$0.

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

Unless indicated otherwise, the actuarial note for HB 701 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 701 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.

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 Received by the LLA from 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 its 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.

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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	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	3,626,969	3,626,969	3,626,969	3,626,969	3,626,969	18,134,845
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<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	5,251,667	5,251,667	5,251,667	5,251,667	5,251,667	26,258,335
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Below	See Below	See Below	See Below	See Below	See Below
Annual Total	See Below	See Below	See Below	See Below	See Below	See Below

HB 701 will have the following effect on retirement related fiscal costs and revenues during the five-year measurement period.

2. Expenditures:

- a. Expenditures from LASERS (Agy Self-Generated) will increase because some of the new members will terminate employment during the five-year measurement period and ask for a refund of their own contributions. These amounts are expected to be very small.
- b. Annual expenditures payable to Social Security from State Dedicated Funds (Stat Deds/Other) will decrease \$709,376 (= 6.2% x 11,441,542) because employers will no longer be participating in Social Security.
- c. Annual expenditures payable to LASERS from State Dedicated Funds (Stat Deds/Other) will increase \$4,336,344 because employers will be participating in LASERS.
- d. The net increase in annual expenditures for employers will be Item c minus Item b, or \$3,626,968.
- e. There will be increased costs to the public defender district offices (Local Funds). This measure requires that attorneys that do not participate in PERS that are employed or contracted by the district offices shall participate in the LASERS. Currently, the attorneys identified in this bill do not participate in LASERS. This fiscal note assumes that these attorneys participate in Social Security instead, which has a contribution rate of 6.2%. The LASERS employer contribution rate in FY 2019 is 37.9%. This measure increases the public defender district offices' retirement expenses by the difference, which is 31.7%.

3. Revenues:

- a. LASERS revenues (Agy Self-Generated) will increase because it will receive \$915,323 (8.0% x \$11,441,542) more from employee contributions than it would have received without regard to HB 701.
- b. LASERS revenues (Agy Self-Generated) will increase because it will receive an additional \$4,336,344 (37.9% x \$11,441,542) more from employer contributions than it would have received otherwise.
- c. The total additional revenue received by LASERS (Agy Self-Generated) will be \$5,251,667 (\$915,323 + \$4,336,344).

**B. Estimated Fiscal Impact – OPEB**

**(Prepared by LLA using information supplied by the LFO)**

1. Narrative

Table B shows the estimated fiscal impact of HB 701 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**

<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 701 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)**

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 701 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**

<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 701 will have no effect on fiscal costs and revenues relative to government entities other than LASERS and the Offices of Public Defenders.

**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 701 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.

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**Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)**

<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	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	3,632,969	3,632,969	3,632,969	3,632,969	3,632,969	18,164,845
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

<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	5,251,667	5,251,667	5,251,667	5,251,667	5,251,667	26,258,335
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Below	See Below	See Below	See Below	See Below	See Below
Annual Total	See Below	See Below	See Below	See Below	See Below	See Below

**Fiscal Costs Received by the LLA from the LFO**  
(Prepared by Tanesha Morgan, Legislative Fiscal Office)

1. Narrative

Proposed law provides that following classes of people shall be eligible for membership in LASERS: 1) attorneys employed by or under contract with the Louisiana Public Defender Board (LPDB), 2) attorneys employed by a district indigent defender program not covered by a Parochial Employees' Retirement System of Louisiana (PERS) plan, and 3) attorneys under contract with a district indigent defender program.

**Fiscal Costs for Other Government Entities**

<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	See below	See below	See below	See below	See below	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	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	See below	See below	See below	See below	See below	0
Annual Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

HB 701 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

*There will be increased costs to the public defender district offices. This measure requires that attorneys that do not participate in PERS that are employed or contracted by the district offices shall participate in the LASERS. Currently, the attorneys identified in this bill do not participate in LASERS. This fiscal note assumes that these attorneys participate in Social Security instead, which has a contribution rate of 6.2%. The LASERS employer contribution rate in FY 18 is 37.8%. This measure increases the public defender district offices' retirement expenses by the difference, which is 31.6%.*

*Note: There are 42 public defender district offices, and they employ or contract with 679 attorneys statewide.*

3. Revenues:

*The district offices operate with a mixture of local funds derived primarily from fees assessed from traffic tickets and state funds from the Louisiana Public Defender Board (LPDB). Per RS 15:167 (E), sixty-five percent (65%) of the LPD Fund that is appropriated to the LPDB is disbursed to these local districts. LPDB prorates the LPD Fund to the district offices based on the district's total expenditures. Due to the increase in expenses to public defender district offices as a result of participating in LASERS, the allocation of the Louisiana Public Defender Fund (LPD Fund) to the districts will be impacted, which may decrease the current allocation to some district offices and increase the allocation to others.*

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**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, has supervised the preparation of the fiscal analyses contained herein.

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

HB 701 contains a retirement system benefit provision having an actuarial cost.

No current member of LASERS will receive a larger benefit with the enactment of HB 701 than what he would have received without HB 701. However, new members will be receiving benefits, and employers will be making contributions to fund them.

**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**