


**2018 REGULAR SESSION
ACTUARIAL NOTE HB 37**

<p>House Bill 37 HLS 18RS-252 Engrossed with Senate Retirement Committee Amendment #3560</p> <p>Author: Representative Brown and Senator Walsworth Date: May 9, 2018 LLA Note HB 37.03</p> <p>Organizations Affected: Louisiana State Employees' Retirement System</p> <p>EG1 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: Provides for benefits for certain members of the Louisiana State Employees' Retirement System totally and permanently disabled in the line of duty by an intentional act of violence.

Cost Summary:

The estimated actuarial and fiscal impact of HB 37 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		0
Total		Increase
Five Year Fiscal Cost Pertaining to:	<u>Expenses</u>	<u>Revenues</u>
The Retirement Systems	\$ 739,060	\$ 739,060
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	\$ 739,060	\$ 739,060

This bill is subject to the provision in 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 provides line of duty disability benefits for members of the Louisiana State Employees' Retirement System (LASERS) who become totally or partially disabled as a result of injuries sustained in the performance of official duties of a hazardous nature. Members of the following sub plans of LASERS are eligible for these benefits. Also shown are the benefits provided.

	Sub Plan	Annual Disability Benefit
1.	Corrections Officers – Primary	60% x Final Average Compensation
2.	Corrections Officers – Secondary	60% x Final Average Compensation
3.	Wildlife Officers	75% x Final Average Compensation
4.	Peace Officers	40% x Final Average Compensation
5.	Hazardous Duty Officers	75% x Final Average Compensation
6.	Harbor Police Officers	75% x Final Average Compensation

The disability benefit is generally payable to members first employed before January 1, 2011 (July 1, 2014 for Harbor Police). The disability benefit is also available to members of the Hazardous Duty sub plan first employed on or after January 1, 2011.

Current law makes payment of such benefits for the Corrections Plans subject to an appropriation of funds for this purpose.

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Proposed Law

HB 37 provides a *special disability benefit* if the disability is the result of an *intentional act of violence while in the line of duty*. The *special disability benefit* is equal to 100% of average compensation regardless of years of service and is payable to eligible members of the six sub plans identified above.

The *special disability benefit* will also be payable prospectively to any disability retiree who is receiving a benefits on July 1, 2018 and who meets the eligibility requirements of HB 37. The actuarial liability created by a benefit increase as a result of this bill shall be determined for each such retiree, and that amount shall be paid over ten years by the agency from which the person retired.

Disabilities approved hereunder after July 1, 2018 will be financed in the normal course of annual actuarial valuations which determine the annual employer contribution rates applicable to all participating employers.

The provisions of law making disability benefits payable to Corrections Officers are subject to an appropriation of funds. HB 37 repeals these provisions.

Implications of the Proposed Changes

The special disability benefit is larger than line of duty disability benefits. Therefore, the actuarial present value of future benefit payments will increase. The increase in cost will depend on how “intentional act of violence” is interpreted, and on the number and extent of such events. It is reasonable to assume that some disabilities will be classified as due to an *intentional act of violence*.

The employing agencies of currently disabled retirees whose benefits are increased as a result of this bill will be responsible for paying within ten years the increased liability created by the benefit increases for their respective disability retirees.

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 37 associated with the sub plans of LASERS is expected to increase. Our analysis is summarized below.

A larger disability benefit will be payable to an eligible member who becomes disabled as a result of an *intentional act of violence while in the line of duty*. According to the system’s most recent actuarial valuation, as of June 30, 2017, LASERS had 2,325 disabled retirees. This is the total number of disabilities in all of LASERS. Benefit allowances for six (6) of these disabled retirees would be larger if HB 37 is enacted. There were 4,752 active employees in the sub plans of LASERS covering members serving in hazardous duty positions. Less than 25 are expected to become disabled from all causes in the following year. While an *intentional act of violence* is not explicitly defined, it is reasonable to assume that a few disabilities from *intentional act of violence* (perhaps less than five) will occur annually. A greater disability benefit will be paid by LASERS in those instances.

The actuary for LASERS has estimated that 75% of the disabilities for members of the identified sub plans occur as line of duty disabilities. To create her benchmark valuation, this assumption was modified to 25% of all disabilities are line of duty disabilities. This change was made to reflect recent experience of the retirement system. She further assumed that 30% of line of duty disabilities were the result of an intentional act of violence. Cost increases associated with HB 37 were determined on this basis. The results are shown below.

Increase in the:	Amounts Attributable to HB 37
Unfunded Accrued Liability	\$ 986,871
Normal Cost	35,659
UAL Payments (10-years)	149,106
Total	184,765
Payroll Percentage for Hazardous Duty Positions	0.18%

The cost increase associated HB 37 will depend on how “intentional act of violence” is interpreted. A broad interpretation would encompass a larger number of line of duty disabilities than would a narrower interpretation.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 37 associated with OPEB, including retiree health insurance premiums, is expected to be \$0. Our analysis is summarized below.

The total liability for post-retirement medical insurance protection provided to retirees is not affected by increasing the disability pension benefit.

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3. Other Government Entities

The actuarial cost or savings of HB 37 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 37 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 37 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 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 cost or savings includes 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	\$ 184,765	\$ 184,765	\$ 184,765	\$ 184,765	\$ 739,060
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	\$ 184,765	\$ 184,765	\$ 184,765	\$ 184,765	739,060
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	\$ 184,765	\$ 184,765	\$ 184,765	\$ 184,765	\$ 739,060

HB 37 will have the following effects on retirement related fiscal costs and revenues during the five-year measurement period.

2. Expenditures:

- a. Expenditures from the General Fund will increase to the extent that employer contribution requirements increase to accommodate the additional disability benefits paid. These expenditures are expected to be about \$184,765 beginning FYE 2020.

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- b. Expenditures from LASERS (Agy Self-Generated) will increase to the extent that larger disability benefits will be paid.
- c. There will be implementation costs to LASERS to make minor software modifications to existing computer programs to identify the members specified in this bill and to update their benefit calculations. These costs are negligible and are anticipated to be absorbed through the agency’s existing budget.

Revenues:

- a. LASERS revenues (Agy Self-Generated) will increase to the extent that employer contributions increase to accommodate additional disability benefits.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 37 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 37 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 37 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.

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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

The fiscal effect that HB 37 will have on expenditures and revenues relative to government entities other than LASERS and its sponsors is expected to be \$0.

**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 37 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	\$ 184,765	\$ 184,765	\$ 184,765	\$ 184,765	\$ 739,060
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	184,765	184,765	184,765	184,765	739,060
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	\$ 184,765	\$ 184,765	\$ 184,765	\$ 184,765	\$ 739,060

Fiscal Costs Developed by the LFO

1. Narrative

Proposed law provides an increase in disability benefits for members of certain Louisiana State Employees’ Retirement System (LASERS) plans that become permanently and totally disabled in the line of duty due to an intentional act of violence. Proposed law provides the following benefits to these individuals: a disability benefit equal to 100% of his average compensation, a permanent benefit increase of 3% every other year, and the highest available state contribution of the premium for participation in an OGB plan available to a retiree.

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

2. Expenditures:

Proposed law provides the highest available state contribution of the premium for participation in an OGB plan available to a retiree to members of certain Louisiana State Employees' Retirement System (LASERS) plans that become permanently and totally disabled in the line of duty due to an intentional act of violence, regardless of their years of participation in OGB. Currently, the state contribution rate is based on a tiered schedule ranging from 19% to 75%, based on the retiree's years of participation in OGB. To the extent that a retiree has less than 20 years of participation in OGB, the cost to employers would be the difference between the contribution rate they would have had to pay under the present tiered schedule and 75%, which is currently the highest available state contribution of the premium for participation in an OGB plan available to a retiree.

Also, there will be implementation costs to LASERS to make minor software modifications to existing computer programs to identify the members 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:

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

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

HB 37 contains a retirement system benefit provision having an actuarial cost.

Disability benefits under some circumstances will be larger with the enactment of HB 37 than they would be without its enactment.

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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