2018 REGULAR SESSION
ACTUARIAL NOTE HB 771

House Bill 771 HLS 18RS-436 **Enrolled** **Author: Representative Bacala** **Date: May 18, 2018** **LLA Note HB 771.06** **Organizations Affected:** **Municipal Police Employees' Retirement System** **EN 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 POL: Provides for payment of unfunded accrued liability by an employer participating in the Municipal Police Employees' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of HB 771 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

Current law provides that a participating employer in the Municipal Police Employees' Retirement System (MPERS) that fully dissolves its police department is required to remit the portion of the 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 dissolution.

Current law also provides that a participating employer in MPERS is deemed to have partially dissolved its police department when the salaries upon which contributions are made by the employer are less than 70% of the salaries from the prior fiscal year. When a partial dissolution occurs, the participating employer is required to remit a portion of the unfunded accrued liability. The portion is calculated by applying the percentage decrease in the employer's fiscal year over fiscal year salaries upon which contributions are made to the payment that would have been required if the employer had fully dissolved its police department.

When a participating employer in the system fully or partially dissolves its police department, the employer can choose to make payments either as a lump sum or equal monthly payments amortized over 10 years.

Proposed Law

HB 771 will require that when a participating employer in MPERS fully dissolves its police department, the employer's portion of the unfunded accrued liability will be calculated using the allocation percentage included in the prior fiscal year's employer pension report produced according to the requirements established by the Governmental Accounting Standards Board.

HB 771 also provides that a participating employer in MPERS is considered to have partially dissolved its police department if either of the following occurs:

1) The number of participating employees is less than 70% of the number of participating employees as of June 30th of the prior year, with at least a reduction of two participating employees or a decrease to zero participating employees.

2) The number of participating employees as of June 30th is at least fifty fewer than the number of participating employees as of June 30th of the prior year.

When a partial dissolution occurs, the participating employer is required to pay a portion of the unfunded accrued liability. The portion is calculated by applying the percentage decrease in the salaries paid to participating employees by the employer on June 30th and salaries paid to participating employees by the employer as of June 30th of the prior year to the payment that would have been required if the employer had fully dissolved its police department.

When a participating employer in the system fully or partially dissolves its police department, the employer will be required to make equal payments amortized over 15 years and payable beginning July 1 of the fiscal year following the full or partial dissolution.

If the number of participating employees of an employer whose department was partially dissolved returns to or exceeds the number of participating employees prior to the partial dissolution, the payments will stop on the July 1 following the increase in participating employees. Any payments made will be credited as an offset of any amounts due for any subsequent withdrawal that occurs within 15 years of such payment.

In addition, HB 771 will prohibit the board of trustees from collecting payments as a result of a partial dissolution that occurred prior to July 1, 2018.

Implications of the Proposed Changes

HB 771 will change how the employer’s portion of the unfunded accrued liability is calculated, how a partial dissolution is determined, and how the payments of the employer’s portion of the unfunded accrued liability will be made.

The change in how a partial dissolution is determined could lead to more employers being required to pay a portion of the unfunded accrued liability when there is a reduction in the number of participating employees.

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

HB 771 does not change the timing or amount of ***benefits*** payable.

It may change whether an employer is considered to have partially withdrawn from the plan, due to a wider definition of partial dissolution. And it may change the amount of the ***payment*** due to changing the method used to determine the employer’s portion of the unfunded accrued liability when fully or partially dissolving its police department, and to extending the payment period from 10 years to 15 years.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost or savings of HB 771 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 whether or not the employer is subject to a withdrawal liability payment, or how the employer’s portion of the unfunded accrued liability is calculated.

3. Other Government Entities

The actuarial cost or savings of HB 771 associated with government entities other than those identified in HB 771, is estimated to be $0.

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

Unless indicated otherwise, the actuarial note for HB 771 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. <u>Actuarial Caveat</u>
(Prepared by the LLA)

There is nothing in HB 771 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 771 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. <u>Estimated Fiscal Impact – Retirement Systems</u>
(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.

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	0	Increase	Increase	Increase	Increase	Increase
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

HB 771 will have the following effects on retirement related fiscal costs and revenues during the five year measurement period. Table A was prepared assuming a reduction in participating employees in the 2018-19 fiscal year will be considered a partial dissolution under HB 771while not meeting the requirements of a partial dissolution under the current law.

2. Expenditures:

   a. Expenditures from the Local Funds will increase to pay for a portion of the unamortized unfunded accrued liability.

   b. The bill will impact those participating employers that may consider reducing the number of participating employees and that may now be deemed to have a partial dissolution. That is, any savings from the dissolution would have to be weighed against the amount of unfunded liability payment that would offset the dissolution. The net fiscal impact on expenditures cannot be accurately estimated for the five-year period.

3. Revenues:

   a. MPERS revenues (Agy Self-Generated) will increase when the portion of the unamortized unfunded accrued liability is paid by the employer.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 771 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 771 will have no effect on OPEB related fiscal costs and revenues during the five year measurement period.

C. <u>Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)</u> (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 771 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	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 771 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

The bill will impact participating employers that may consider fully or partially dissolving their police departments by changing the dollar value of incentives or disincentives for doing so. Because existing law already provides for such dissolutions, proposed law changes the methods and definitions regarding such dissolutions, and the number of employers that may be impacted for the five-year period can not be accurately estimated, the net fiscal impact on expenditures can not be accurately estimated for the five-year period.

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 771 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 771 contains a retirement system benefit provision having an actuarial cost.

No member of MPERS will receive a larger benefit with the enactment of HB 771 than what he would have received without HB 771.

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