


**2019 REGULAR SESSION
ACTUARIAL NOTE HB 27**

<p>House Bill 27 HLS 19RS-287 Original</p> <p>Author: Representative Jones Date: March 8, 2019 LLA Note HB 27. 01</p> <p>Organizations Affected: Municipal Employees' Retirement System of Louisiana</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> <p style="text-align: center;"></p> <p>James J. Rizzo, ASA, MAAA Senior Consultant & Actuary Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor</p>
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Bill Header: RETIREMENT/MUNICIPAL EMP: Provides relative to elected officials who are members of the Municipal Employees' Retirement System of Louisiana

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the *net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system*. Net 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 *net 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 (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		Net Actuarial Cost
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		0
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Other Post-employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Under current law, if a retiree receiving a normal retirement benefit from the Municipal Employees' Retirement System (MERS) is rehired by an employer but he does not meet the definition of an employee, the combination of the retiree's monthly retirement benefit and his monthly earnings may not exceed his monthly average compensation prior to retirement. If they do, his monthly retirement benefit is reduced as necessary so the total does not exceed his final monthly average compensation.

Current law provides that the MERS board of trustees includes three elected officials. It also provides that an elected official may continue to serve his full term on the board of trustees if he ceases to hold the elective office which qualified him for the position.

Proposed Law

HB 27 makes two unrelated changes to current law:

HB 27 makes an exception for retired members receiving normal retirement who are elected to office and satisfy the definition of part-time elected officials. The calculation of the monthly earnings (for the purpose of limiting and reducing the retirement benefit) shall not include income attributable to services as a part-time elected official.

HB 27 also provides that an elected official who no longer holds the elective office that qualified him to serve on the board is not eligible to continue serving on the board.

**2019 REGULAR SESSION
ACTUARIAL NOTE HB 27**

Implications of the Proposed Changes

HB 27 will allow retired members of MERS who are elected to office, and return to work as part-time elected officials, to continue to collect full retirement benefits along with monthly earnings, without imposing a limit on the retirement benefit due to the combined amount. The result will be that benefits payable to such retirees may be higher than they would be under current law.

If an elected official serves in one of the trustee positions which are meant to be held by elected officials, and that trustee no longer holds the elective office that qualified him for the trustee position, then he is no longer eligible to serve as a trustee.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Net Actuarial Costs
(Prepared by LLA)**

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be a small increase. The actuary's analysis is summarized below.

The present value of future benefit payments may increase slightly because pension benefits for retired members of MERS who are elected to office, and return to work on a part-time basis, will not be subject to any reduction in benefits for part-time work. It is estimated that very few MERS retirees will be rehired as part-time elected officials with monthly earnings that would otherwise cause a reduction in retirement benefits. Therefore, while there may be some amount of increase in future benefits due to this proposed bill, it is estimated to be a small increase.

Not allowing elected officials to continue their terms as trustees when no longer holding the elective office qualifying them for the position will not affect the actuarial benefit cost of the retirement system.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers generally remains the same regardless of the amount of retirement benefits paid by MERS to a retiree.

Not allowing elected officials to continue their terms as trustees when no longer holding the elective office qualifying them for the position will have no impact on the liability for post-retirement medical insurance protection provided to retirees.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in the proposed legislation 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 (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of HB 27 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by 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. 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.

**2019 REGULAR SESSION
ACTUARIAL NOTE HB 27**

Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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 proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

- a. Expenditures from MERS (Agy Self-Generated) for monthly benefit payments may increase for certain retirees who are also part-time elected officials.
- b. Expenditures of participating government entities (Local Funds) will increase to the extent the employer contribution rate increases to offset the cost of additional benefit payments.

3. Revenues:

MERS revenues (Agy Self-Generated) will increase to the extent that employer contribution rates are increased to fund the cost of the additional benefit payments.

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

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. 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	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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 proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

**2019 REGULAR SESSION
ACTUARIAL NOTE HB 27**

- 2. Expenditures:
No measurable effects.
- 3. Revenues:
No measurable effects.

**C. Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)
(Prepared by Bradley Cryer, Director of Local Government Services, LLA)**

- 1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities (other than the retirement systems or OPEB). Table C shows the estimated fiscal impact of the proposed legislation 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	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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 proposed legislation will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

- 2. Expenditures:
No measurable effects.
- 3. Revenues:
No measurable effects.

**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)**

- 1. Narrative

Table D shows the estimated fiscal impact of the proposed legislation 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.

**2019 REGULAR SESSION
ACTUARIAL NOTE HB 27**

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

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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

Credentials of the Signatory Staff:

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

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

HB 27 contains a retirement system benefit provision having an actuarial cost.

A retired member of MERS who is a part-time elected official may receive more in benefits under HB 27 than what he would have received without HB 27.

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 2019 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