2021 REGULAR SESSION
ACTUARIAL NOTE SB 18

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<tr>
<td rowspan="2">Senate Bill 18 SLS 21RS-95
Original

Author: Senator Johns
Date: April 1, 2021
LLA Note SB 18.01

Organizations Affected:
Louisiana State Police Retirement System

OR INCREASE APV</td>
<td colspan="2">This Note has been prepared by the Actuary for the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.</td>
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Bill Header: STATE POLICE RETIREMENT: Provides for the reemployment of retirees. (gov sig)

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 Present Values pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***[1]. 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 local and state 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 Present Values Pertaining to:		**Net Actuarial Present Values**
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		0
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems – Agy Self Generated	Increase	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	0	0
State Government Entities	Increase	0
Total	Increase	Increase

Bill Information

Current Law

Current law [R.S. 11: 1305(A)(1) and (B)] requires sworn, commissioned law enforcement officers of the office of state police to be classified employees under the state civil service system in order to be eligible for membership in LSPRS. Unclassified employees are not eligible for membership.

Current law [R.S. 11:1311(A)] also provides that, in the Louisiana State Police Retirement System (LSPRS), whenever a retiree returns to employment as a sworn, commissioned law enforcement officer of the office of state police in any office, section, agency, commission, or branch of the Department of Public Safety and Corrections, there are two implications for him:

(1) Such a retiree is not entitled to renew his membership in or become a member of LSPRS, regardless whether he is classified or not and
(2) If such a retiree earns more than 50% of his average final compensation (AFC) in the position, his retirement benefit is suspended for every month of such employment, regardless whether he is classified or not.

Current law [R.S. 11:1311(B)] provides that whenever a retiree returns to employment with the Department of Public Safety and Corrections in any capacity other than as a sworn, commissioned law enforcement officer of the state police, his employment shall, if otherwise applicable, be governed, with respect to retirement, by the laws governing the Louisiana State Employees' Retirement System (LASERS).

[1] **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note "Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution").

Therefore, current law [R.S. 11:1311(A)] permits a LSPRS retiree to return to work as a sworn, commissioned law enforcement officer of the office of state police as either classified or unclassified, and not become an active member of LSPRS again. As such, no employer or employee contributions are required on behalf of such reemployed retiree, and no additional benefits accrue for his reemployed service. Furthermore, current law requires LSPRS to suspend his monthly pension benefits if his earnings from reemployment exceed the threshold, regardless whether he is classified or not.

Proposed Law

SB 18 retains the current law requirement [R.S. 11: 1305(A)(1) and (B)] that a sworn, commissioned law enforcement officer of the office of state police be a classified employee under the state civil service system in order to be eligible for membership in LSPRS. Under SB 18, an unclassified sworn, commissioned law enforcement officers of the office of state police continues not to be eligible for membership in LSPRS, whether as a new hire or as a reemployed retiree.

SB 18 provides that whenever a retiree returns to employment which would otherwise render him eligible for membership in LSPRS (i.e., a sworn, commissioned law enforcement officers of the office of state police and classified under the state civil service system), the two implications of current law described above apply:

(1) Such a retiree is not entitled to renew his membership in or become a member of LSPRS even though he may be a classified employee and, therefore, otherwise eligible for membership and
(2) If such a reemployed retiree is otherwise eligible for membership in LSPRS (as a classified employee), and earns more than 50% of his average final compensation (AFC) in the position, his retirement benefit is suspended.

Furthermore, the proposed bill provides that the earnings limitation of 50% of AFC applies on a calendar year basis.

Implications of the Proposed Changes

SB 18 changes the reemployment criterion of LSPRS to apply whenever a retiree returns to employment that would otherwise render him eligible for membership in LSPRS **instead of** returning to employment solely as a sworn, commissioned law enforcement officer of the office of state police in any office, section, agency, commission, or branch of the Department of Public Safety and Corrections. It also provides that the earnings limitation of 50% of the AFC applies on a calendar year basis.

SB 18 has the effect that a reemployed retiree, who returns to employment as a classified employee and whose reemployment would otherwise render him eligible for membership (1) would not be entitled to membership and (2) would have his retirement benefits suspended if the earnings limit is exceeded.

Conversely, SB 18 has the effect that a reemployed retiree, who returns to employment **not** as a classified employee and who, therefore, would not be otherwise rendered eligible for membership (1) would continue **not** to be eligible for membership and (2) would **not** have his retirement benefits suspended if the earnings limit is exceeded.

Consequently, under SB 18, certain unclassified reemployed retirees would no longer be required to have their monthly pension benefits suspended if their earnings from reemployment exceeds the threshold.

I. <u>ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]</u>

A. <u>Analysis of Net Actuarial Costs</u>
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial present value 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 considered to be an increase. The actuary's analysis is summarized below.

Under current law, there are two primary conditions required for membership in LSPRS: (1) Be a sworn, commissioned law enforcement officer of the office of state police with certain training requirements and (2) Be a classified employee. Also, under current law there is only one condition required for a reemployed retiree to be subject to the suspension of benefits rule: Be a sworn, commissioned law enforcement officer of the office of state police.

At times, LSPRS retirees return to employment as sworn, commissioned law enforcement officers of the office of state police, but whose employment and pay records are coded as "unclassified" and, as such, are not eligible for membership in LPRS. Consequently, these reemployed retirees are not currently included in periodic data transfers to the LPRS and therefore, are not monitored by LSPRS for whether their earnings exceed the statutory limits of the current law.

The actuarial analysis of this proposed law starts with the premise that for certain unclassified reemployed retirees, their monthly benefits should be suspended under current law when their earnings exceed the threshold.

SB 18 codifies this current practice of not monitoring compensation of such reemployed retirees for compliance with the suspension of benefits rules.

In the absence of SB 18, the system would be required to monitor the earnings and suspend the monthly benefits when the threshold is exceeded for all retirees returning to employment as sworn, commissioned law enforcement officers of the office of state police, regardless of whether they are classified or not.
Therefore, by codifying current practice, SB 18 results in an increase in benefits for affected retirees (i.e., no suspension for those that exceed the limit) as compared to benefits properly payable in the absence of SB 18. The following factors will affect the magnitude of the increase:

A. Under SB 18, there would be no more suspension-of-benefits for certain unclassified retirees reemployed in the future, as compared to the suspension-of-benefits required under the current law. This is a benefit-increasing effect of the proposed bill.

   In the absence of SB 18, applying the current law's suspension of benefits requirements for certain unclassified reemployed retirees may cause some of them to be careful not to exceed the limits. It is unclear how many of such employees would allow suspension of benefits to take place; thus, assessing the effect of SB 18 more accurately to what benefits would be properly payable occur under the current law is hampered by a lack of actual data.

B. Changes in the rules may have indirect impact on the cost to the System. Retirees' knowledge of the codification of no suspension-of-benefits under SB 18 may induce employees to retire earlier than otherwise (under either early or normal retirement provisions), knowing they can come back as unclassified employees and continue doing similar work without suspension of benefits. This could have an increasing effect on actuarial costs, compared to what current law requires.

C. Management's knowledge of the codification of no suspension-of-benefits may provide the office of state police with a recruiting incentive to persuade retirees to return to work during times of certain staffing needs, knowing they can come back as unclassified employees without suspension of benefits, receiving both salary and pension. This, too, could have an increasing effect, compared to what current law requires.

D. SB 18 provides that this change is considered remedial and interpretive and is applied retroactively and prospectively. Based on the current administrative practice, some number of current and past reemployed retirees never had their benefits suspended as is required under current law. It is not known how many past reemployed unclassified retirees should have had benefits suspended. Furthermore, there is a judgment call as to whether to identify them and determine the amounts of overpayments, and whether to recover any overpayments. If previous overpayments were pursued for recovery as expected under current law, the retroactive effect of SB 18 would result in a loss of those recoveries and therefore, an increase in benefits and actuarial costs. If recovery were not to be pursued under the current law, the retroactive nature of SB 18 would result in no effect on previous benefits and actuarial costs.

Besides the potential increase in benefit costs described above, there would be some administrative savings to LSPRS achieved if SB 18 passed, because there would be a certain level of additional administrative costs that would need to be expended to comply with the current law (for retroactive and prospective) for remediation of the current practices. However, under SB 18, those administrative costs would not be necessary, and would result in some administrative cost savings.

On balance, SB 18 is considered to provide a full unsuspended benefit to certain reemployed retirees who would not be entitled to the full benefits under the requirements of the current law. Considering the factors described above, SB 18 is expected to result in a net increase in actuarial present values of benefits and expenses to the 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 subsidies provided to retirees who are reemployed as unclassified is not affected measurably by changing the provisions of benefit suspensions.

B. <u>Actuarial Data, Methods and Assumptions</u>
(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. <u>Actuarial Caveat</u>
(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 IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

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.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 Year Total
State General Fund	$ 0	$ 0	Increase	Increase	Increase	Increase
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	2021-22	2022-23	2023-24	2024-25	2025-26	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	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	$ 0	Increase	Increase	Increase	Increase

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated in the table.

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Agy Self Generated: Comparing the Fiscal Costs within LSPRS associated with the passage of SB 18 with the Fiscal Costs associated with the absence of SB 18, the difference is expected to be an increase in benefits due to the removal of suspension of benefits rules for certain reemployed retirees. At the same time, there is expected to be some administrative expenditures that would not need to be paid by LSPRS if SB 18 passes. The net effect is expected to be an increase commencing in the 2021-22 year.

   b. State General Fund: Retirement-related expenditures are expected to increase for the State General Fund when the employer contribution paid to LSPRS is expected to increase commencing in the 2023-24. Any increases in benefits paid by LSPRS that arise due to the removal of suspension of benefits rules for certain reemployed retirees would have to be financed by the State as part of the actuarial gain or loss for the year. This results in increased employer contributions paid by the State General Fund to LSPRS in subsequent years.

3. Revenues:

   a. Agy Self Generated: Any increases in benefits that arise due to the removal of suspension of benefits rules for certain reemployed retirees would have to be financed by the State as part of the actuarial gain or loss for the year. This results in increased employer contributions received by LSPRS in subsequent years, commencing in the 2023-24 contribution year.

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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   No measurable effects.

3. Revenues:

   No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs (savings) relating to administrative expenditures and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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 administrative costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

   a. N/A - This bill only impacts state government, and therefore, has no local government impact. The LGS does not review state government bills.

3. Revenues:

   a. N/A - This bill only impacts state government, and therefore, has no local government impact. The LGS does not review state government bills.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal cost (savings) relating to administrative expenditures and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by Chris Keaton, Legislative Fiscal Officer)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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 state government entities during the five year measurement period.

2. Expenditures:

   Other than the impact on employer contribution rates which is already reflected in Table A above, there is no anticipated direct material effect on governmental expenditures as a result of this measure.

3. Revenues:

   There is no anticipated direct material effect on governmental revenues as a result of this measure.

Credentials of the Signatory Staff:

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have 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

[X] SB 18 contains a retirement system benefit provision having an actuarial cost.

Some members of the Louisiana State Police Retirement System may receive a larger benefit with the enactment of SB 18 than what they would without SB 18.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2021 regular session.

Senate			**House**		
[ ]	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**	[ ]	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**
[ ]	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**	[ ]	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**