OFFICE OF LEGISLATIVE AUDITOR
2022 REGULAR SESSION
ACTUARIAL NOTE

Senate Bill 9 SLS 22RS-67	**Date: March 29, 2022**
Engrossed	**Organizations Affected: MERS, PERS**
Author: Mills, R.	
LLA Note SB 9.02	**EG INCREASE APV**

Bill Header: RETIREMENT SYSTEMS: Provides relative to benefits provided by and administration of certain statewide retirement systems.

Purpose of Bill: This bill applies to the Municipal Employees' Retirement System of Louisiana (MERS) and the Parochial Employees' Retirement System (PERS). For MERS, it restricts retroactive retirement payments to no more than 60 days prior to receipt of a retirement application, allows all participating employers, not just municipalities, to irrevocably elect to allow retiring members to convert unused sick and annual leave to retirement service credit, and eases certain restrictions related to Board reimbursements, plan asset allocation, and the frequency of actuarial experience studies. For PERS, it eases certain restrictions related to plan asset allocation.

Cost Summary[1]: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below. An increase in actuarial present values (actuarial impact) and an increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in actuarial present values (actuarial impact) or a decrease in expenditures or revenues (fiscal impact) are denoted by "Decrease" or a negative number.

In the following table, "Net Actuarial Present Values" pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by a retirement system or associated with an OPEB plan***. A more detailed explanation of the information presented in this table can be found in Section I: Actuarial Impact on Retirement Systems and OPEB.

In our opinion, the net impact of the changes outlined in the bill is expected to be an overall slight increase in total APV.

Change in Net Actuarial Present Values Pertaining to:	
The Retirement Systems	Increase
Other Post-employment Benefits (OPEB)	0
Total	**Increase**

"Net Fiscal Costs" 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.

In the following table, expenditures and revenues only include cash flows to or from the affected retirement system or OPEB plan, (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation of the information presented in this table can be found in Section II: Fiscal Impact on Retirement Systems and OPEB.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Decrease	$ 0
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	0	0
State Government Entities	0	0
Total	**Decrease**	**$ 0**

From time to time, retirement legislation is proposed that affects administrative expenditures and revenues for state and local government entities associated with implementing the proposed legislation (other than contribution changes included in the above table). This information, provided by the LLA Local Government Services or the Legislative Fiscal Office, is summarized in the following table. A more detailed explanation of the information presented in this table can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
Local Government Entities	$ 0	$ 0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

[1] This is a different assessment from the actuarial cost requiring a 2/3 vote (refer to the section near the end of this Actuarial Note **"Information Pertaining to La. Const. Art. X, §29(F)"**).

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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

This section of the actuarial note pertains to changes in the net actuarial present value (APV) of expected future benefit payments and administrative expenses incurred by the retirement systems or associated with an OPEB plan.

1. Retirement Systems

The net change in actuarial present value of expected future benefits and administrative expenses incurred by MERS from the proposed legislation is difficult to measure, but is estimated to increase. This bill has three provisions that could potentially impact the actuarial present value of expected future benefit payments or administrative expenses of MERS.

a. Under current law, actuarial experience studies are required to be completed at least once every three years. This bill would decrease the frequency of this requirement from once every three years to once every five years and would decrease administrative expenses. The net effect on the net actuarial present value of this change is a slight decrease.

b. Under current law, members retiring directly from active service are able to submit a retirement application and receive retroactive benefit payments back to their date of first eligibility for an unlimited period of time while terminated vested members may only begin payments after approval of their retirement application. This bill would limit payment of retroactive retirement benefits for active members to, and allow vested terminated members the ability to receive retroactive payments for, 60 days prior to the date the retirement application is submitted. This change would reduce total expected benefit payments for retirees, assuming no change in behavior. The actual amount is difficult to measure because this limitation could encourage retirees who might otherwise delay submission to submit retirement paperwork sooner. However, any reduction in future payments to retirees is likely to be outweighed by an increase in additional retroactive payments to vested terminated members.

c. Under current law, municipalities are able to make an irrevocable election that grants additional retirement service credit for benefit calculations to any retiring member representing his accumulated unused sick and annual leave that cannot be paid. Municipalities who make this election are required to contribute the actuarial cost of this conversion within 30 days after the member retires. Participating employers who are not municipalities do not have this option under current law. This bill would extend this option to all participating employers.

   In general, if a non-municipality participating employer were to make this election, the net actuarial present value of expected future benefit payments would increase. At this time, 7.6% of municipalities have made an election to offer this option. Because the demographics and needs of non-municipality participating employers may be different than municipalities, it can be expected that some subset would also make the election, resulting in an increase in the total liability but the exact impact is not actuarially measurable.

In our opinion, the net impact of these items is expected to be an overall slight increase in total APV.

The bill is not expected to have a cost impact on PERS.

2. Other Post-employment Benefits (OPEB)

The net change in actuarial present value of expected future benefits and administrative expenses associated with OPEB, including retiree health insurance premiums, from the proposed legislation is estimated to be $0. The actuary's analysis is summarized below.

The liability and expenses for post-retirement medical insurance is not impacted by any provisions of this bill.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB

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 only include cash flows to or from the affected retirement system or OPEB plan, (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation.

A. Estimated Fiscal Impact – Retirement Systems

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.

2022 REGULAR SESSION
ACTUARIAL NOTE SB 9

Retirement System Fiscal Cost: Table A

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Increase	Increase	Decrease	Increase	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Decrease	Increase	Increase	Decrease	Decrease
Annual Total	Decrease	Decrease	Increase	Decrease	Decrease	Decrease

REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Decrease	Increase	Increase	Decrease	Decrease
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	Decrease	Increase	Increase	Decrease	Decrease

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

1. Expenditures:

Agy Self Generated

a. Decreasing the frequency of actuarial experience studies from once every three years to once every five years will decrease administrative costs of MERS. Based on the expected changes to the experience study cycle, the experience studies that would otherwise have occurred in FYEs 2023 and 2026 will not occur, and instead occur in FYE 2024.

b. Limiting payment of retroactive retirement benefit payments to no more than 60 days prior to the date the retirement application is submitted for active members entering retirement would reduce total expected benefit payments compared to current law. The actual amount is difficult to measure because this limitation could encourage retirees who might otherwise delay submission to submit retirement paperwork sooner. The proposed bill also grants vested terminated members the ability to receive retroactive payments for up to 60 days (while current law does not), which would increase expected benefit payments. Over the long-term, any reduction in payments to retirees is likely to be outweighed by the increase from additional payments to vested terminated members. For purposes of the anticipated five-year fiscal cost, we identify the net effect of this provision as a slight increase each year for MERS.

c. To the extent that non-municipal participating entities make the irrevocable election under this bill to grant retiring members additional service for accumulated sick and annual leave time, MERS' benefit expenditures will increase slightly.

Local Funds

All expenditures for employer contributions are reflected in the Local Funds line above. The actual sources of funding may vary and are not differentiated in the table.

d. MERS passes-on all administrative costs (such as required periodic experience studies) that it expects to incur in a given year to participating entities by including budgeted expenses for administrative expenses in the stated contribution rate to be collected in the year following the expected year of payment. Therefore, the changes in administrative expenses relative to the changing frequency of experience studies would be reflected in the contributions paid by Local Funds to MERS in the year following the year paid (or not paid) by MERS.

e. The slight amount of expected net increase in retirement benefits under the 60-day retroactive benefit payment provisions of this bill which are paid by MERS during a given year results in a slight increase in employer contributions paid by Local Funds to MERS beginning in the second year thereafter.

f. Contributions from Local Funds to MERS may increase slightly, as soon as FY 2023, to the extent that participating employers that are not municipalities make the irrevocable election and their active members retire with converted leave amounts.

We expect the decreases during two of the next five years (net of the one-year increase) from the change in the experience study cycle will offset the slight increases from retroactive payments, over the full five years. Over the longer term, however, we expect the net actuarial present value to increase.

2. Revenues:

Changes in retirement contributions outlined in items 1.d through 1.f, above, as changes in Local Fund expenditures have corresponding changes in Agy Self Generated revenues.

B. Estimated Fiscal Impact – OPEB

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	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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.

1. Expenditures:

   No measurable effects

2. Revenues:

   No measurable effects

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES
(Prepared by LLA Local Government Services)

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)

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	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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.

1. Expenditures:

   No measurable effects.

2. Revenues:

   No measurable effects.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

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)

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

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	2022-23	2023-24	2024-25	2025-26	2026-27	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

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the Legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

There is nothing in the proposed legislation that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

[x] SB 9 contains a retirement system benefit provision having an actuarial cost.

Some members of MERS would receive a larger benefit with the enactment of SB 9 than what they would have received without SB 9.

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 2022 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**