



**OFFICE OF LEGISLATIVE AUDITOR
2023 REGULAR SESSION
ACTUARIAL NOTE**

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| House Bill 43 HLS 23RS-294 Engrossed Author: Firment LLA Note HB 43.02 | Date: May 7, 2023 Organizations Affected: FRS EG +4,750,000 FC SG EX |
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides for nonrecurring lump-sum supplemental payment to certain eligible retirees and beneficiaries.

Purpose of Bill: This bill provides a one-time, non-recurring, lump-sum payment (often referred to as a ‘thirteenth check’) to eligible retirees and beneficiaries of the Firefighters’ Retirement System (FRS). Eligible recipients will receive a lump sum payment amount equal to the lesser of (1) the current monthly benefit or (2) \$2,500. This bill also permits certain surviving spouses to designate all, or a portion, of their benefit be payable to certain eligible children.

Cost Summary¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

Although this bill provides a one-time payment which does not permanently increase future benefit payments, it will necessarily reduce current assets available to fund currently accrued benefits, thereby requiring an increase in employer contributions. It also permits certain surviving spouses to designate all, or a portion, of their benefit to certain eligible children.

The expected change in the *net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems* from the proposed law is estimated to be approximately \$4,750,000, resulting in an increase in employer contributions of approximately 0.17% per year. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (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 can be found in Section II: Fiscal Impact on Retirement Systems.

| Five Year Net Fiscal Costs Pertaining to: | Expenditures | Revenues |
|--|---------------------|-----------------|
| The Retirement Systems | \$ 4,750,000 | Increase |
| Local Government Entities | Increase | 0 |
| State Government Entities | <u>0</u> | <u>0</u> |
| Total | Increase | Increase |

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information, is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation 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 | <u>0</u> | <u>0</u> |
| Total | \$ 0 | \$ 0 |

¹ This is a different assessment from the actuarial cost requiring a 2/3rd 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

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I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

Proposed law provides a one-time, non-recurring, lump-sum payment (often referred to as a ‘thirteenth check’) to eligible retirees and beneficiaries of the Firefighters’ Retirement System (FRS). Eligible participants will receive a lump sum payment amount equal to the lesser of (1) retiree or beneficiary’s currently monthly benefit or (2) \$2,500. This amount is estimated to be approximately \$4,750,000, but may change if a more thorough examination of participant data identifies more, or fewer, individuals to be eligible at the effective date

Although proposed law provides a one-time payment which does not permanently increase future benefit payments, it will necessarily reduce current assets available to fund currently accrued benefits, thereby requiring an increase in future employer contributions. The net effect of this change is estimated to be an increase in employer contributions of 0.17% per year.

In addition, proposed law also permits certain surviving spouses to designate all, or a portion, of their benefit be payable to certain eligible children. While this particular provision could potentially result in anti-selection that general actuarial equivalence tools would not be sufficient to mitigate, any additional cost to the system is expected to be immaterial.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems.

Fiscal costs or savings only include cash flows to or from the affected retirement system (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 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.

Table A: Retirement System Fiscal Cost

| Expenditures | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</u> | <u>5-Year Total</u> |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self-Generated | 4,750,000 | 0 | 0 | 0 | 0 | 4,750,000 |
| Stat Deds/Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Local Funds | 0 | 0 | Increase | Increase | Increase | Increase |
| Annual Total | \$ 4,750,000 | \$ 0 | Increase | Increase | Increase | Increase |

| Revenues | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</u> | <u>5-Year Total</u> |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------|
| 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 |

Changes in employer contributions are reflected in the Local Funds expenditure line above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) 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.

1. Expenditures:
 - a. Approximately \$4,750,000 of nonrecurring lump sum payments.
 - b. Employer contributions are expected to be higher during Years 3 through 5 under the proposed law equal to approximately 0.17% of payroll.
 - c. Administrative expense would be minimal and can be absorbed within FRS’ existing budget.

2. Revenues:

Employer contributions to the retirement systems are represented as Agy Self-Generated revenues in the table above.

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) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Table A. The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

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

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

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

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)

- This bill contains a retirement system benefit provision having an actuarial cost. Some members of the Firefighters' Retirement System would receive a larger benefit with the enactment of this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2023 regular session.

Senate

- 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

- 13.5.2 Applies to Senate or House Instruments
If an annual tax or fee change \geq \$500,000, then 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 \geq \$100,000, then bill is dual referred to:
Dual Referral: Appropriations

- 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes \geq \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means