



**OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE**

House Bill 22 HLS 24RS-309 Original Author: Adams LLA Note HB 22.01	Date: March 8, 2024 Organizations Affected: MERS OR INCREASE APV
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Bill Header: RETIREMENT/MUNICIPAL EMP: Provides for the purchase of a higher accrual rate for members of the Municipal Employees' Retirement System.

Purpose of Bill: MERS members who have transferred into MERS from another State or Statewide system have the opportunity to transfer their service credit from the previous system into MERS. If the funds transferred from their prior system into MERS are not sufficient to pay the full current cost of the same number of years at the MERS accrual rate, the member has the option to contribute the difference at that time, or be credited with a lower accrual rate for those years. This bill provides a second opportunity for such a member to purchase the higher MERS accrual rate for those transferred service credits at time of retirement.

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

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 a **slight increase**. 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:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	\$ 0	\$ 0
Local Government Entities	0	0
State Government Entities	0	0
Total	\$ 0	\$ 0

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:	<u>Expenditures</u>	<u>Revenues</u>
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 2/3rd 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.

MERS members who have transferred into MERS from another State or Statewide system have the opportunity to transfer their service credit from the previous system into MERS. If the funds transferred from their prior system into MERS are not sufficient to pay the full current cost of the same number of years at the MERS accrual rate, the member has the option to contribute the difference at that time, or be credited with a lower accrual rate for those years. This bill provides a second opportunity for such a member to purchase the higher MERS accrual rate for those transferred service credits at time of retirement. The purchase of the higher accrual rate at the time of retirement will be paid by an amount calculated on an actuarial basis which completely offsets the increase in accrued liability of MERS.

On its surface, this bill would appear to be “cost neutral” with respect to changes in MERS’ unfunded accrued liability. However, the development of the actuarial cost, as outlined in statute, results in a member being able to purchase guaranteed benefits (e.g. a retirement annuity, disability, and death benefits, all guaranteed by MERS and backed by the State of Louisiana) at a price that is significantly less than the cost of similar benefits on the open market. This is a function of several factors, primarily the comparatively generous assumptions used to develop the “actuarial cost” and the lack of individual underwriting that an insurance company would undertake (e.g. requiring basic health information). Further, members have knowledge about their personal situations, and it is reasonable to assume only those members who perceive the purchase of the higher accrual rate as advantageous will utilize it, ultimately exposing the system to a long-term expected cost greater than the amount paid by the member, and an increased cost to MERS. By adding a second opportunity to purchase service credit at a higher accrual rate, the system could be exposing itself to additional risks compared to present law which permitted only one such opportunity. It is worth noting the population of individuals who are likely to be eligible to take advantage of this opportunity is relatively small therefore, in this case, the potential impacts from anti-selection are expected to be minimal.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

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

Fiscal costs or savings include only 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.

The proposed legislation is not expected to have any measurable effects on fiscal administrative costs and revenues of the retirement system during the five-year measurement period.

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 Section II.

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.

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

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

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

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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 Municipal Employees' Retirement Systems could 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 2024 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