OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE

House Bill 34 HLS 24RS-183	**Date: March 8, 2024**
Original	**Organizations Affected: DARS and all other Louisiana systems**
Author: Tarver	
LLA Note HB 34.01	**OR SEE ACTUARIAL NOTE APV**

Bill Header: RETIREMENT/DISTRICT ATTY: Provides relative to membership in the District Attorneys' Retirement System.

Purpose of Bill: This bill allows a member with at least five years of service in District Attorneys' Retirement System (DARS) who becomes employed by another employer in a position covered by another state or statewide retirement system to make an irrevocable election to remain a member of DARS instead of joining the other retirement system. The new employer that never contributed to DARS before would begin to contribute to DARS for such employees.

Cost Summary[1]: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

Generally speaking, DARS offers a richer benefit than many other Louisiana State or Statewide retirement systems. The benefit accrual rate is higher, the member and employer contribution rates are lower, and the system is in a financial position to consistently offer comparatively generous COLAs. Allowing members with at least five years of service to remain in DARS if they become employed in positions covered by other state or statewide retirement systems will almost definitely lead to a change in employee behavior and more people participating in DARS for the duration of their career. This change is also likely to encourage some individuals to seek out DARS-covered employment for the requisite 5 years before moving, or returning, to a position generally covered by another State or Statewide retirement system.

Over the long-term, this will lead to increases in total costs across all retirement systems and employers because:

- Contributions to DARS will increase to account for the increased participation.
- Reductions in contributions to all other retirement systems is unlikely to completely offset the increase in contributions to DARS, given most State and Statewide retirement systems are not fully funded.
- Total benefits paid from all retirement systems will be larger because any individual who will now be able to continue participating in DARS will receive a larger benefit than they would have received if they moved to a different State or Statewide retirement system.

This impact will not be immediately reflected in plan liabilities or contributions because 1) it does not change anyone's current accrued benefit but rather changes what is possible to earn in the future and 2) while we can be certain that total participation in DARS will increase over time, it is not possible to accurately predict which other retirement systems will be impacted so we cannot state with any certainty what the changes will be. As participant behavior changes over time, the costs will begin to be reflected in changes to actuarial assumptions for the respective retirement systems.

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 **an 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:	**Expenditures**	**Revenues**
The Retirement Systems	See Section II	See Section II
Local Government Entities	See Section II	See Section II
State Government Entities	See Section II	See Section II
Total	**See Section II**	**See Section II**

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	Increase	$ 0
State Government Entities	Increase	0
Total	**Increase**	**$ 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**

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.

Generally speaking, DARS offers a richer benefit than many other Louisiana State or Statewide retirement systems. The benefit accrual rate is higher, the member and employer contribution rates are lower, and the system is in a financial position to consistently offer comparatively generous COLAs. Allowing members with at least five years of service to remain in DARS if they become employed in positions covered by other state or statewide retirement systems will almost definitely lead to a change in employee behavior and more people participating in DARS for the duration of their career. This change is also likely to encourage some individuals to seek out DARS-covered employment for the requisite 5 years before moving, or returning, to a position generally covered by another State or Statewide retirement system.

While this seems advantageous for employees, enabling them to accrue a better retirement benefit than they otherwise might on the same career path, it potentially creates equity issues from an employment perspective because employees in similar positions could be earning different retirement benefits. In the short-term, it may even reduce employer contributions for these individuals/positions at some employers, but introduces potential equity issues across employers and retirement systems given the nature of how retirement contributions are distributed.

For any plan that is not fully funded, annual contributions consist of a portion of costs that will vary based on the number of participants (costs attributable to the current year) and a portion of costs that can be considered “fixed” in that they do not vary based on the number of participants (generally costs attributable to prior years, most administrative costs, etc.). Depending on the actuarial cost method used to develop the funding contribution, this relationship may not be apparent, but it still exists for all practical purposes. The burden for this “fixed” cost is shared across all participating employers in proportion to that employer’s covered payroll compared to the total covered payroll for the plan (i.e. as a “percent of payroll”).

By permitting individuals to be hired by Employer X into a position that is ordinarily covered by Retirement System Y, but not require that individual to participate in Retirement System Y (but remain in DARS), the burden of the fixed cost portion for Retirement System Y must now be spread over a smaller total covered payroll, increasing the contribution rate, and shifting a portion of that burden from Employer X to all other participating employers. This means that even if Employer X’s total retirement contribution goes down (i.e. contributions to Retirement System Y + DARS under proposed law is less than the contributions to Retirement System Y under present law), this reduction will not be fully offset by a corresponding reduction in total contributions to Retirement System Y.

Over the long-term, this will lead to increases in total costs across all retirement systems and employers because:

- Contributions to DARS will increase to account for the increased participation.
- Reductions in contributions to all other retirement systems is unlikely to completely offset the increase in contributions to DARS, given most State and Statewide retirement systems are not fully funded.
- Total benefits paid from all retirement systems will be larger because any individual who will now be able to continue participating in DARS will receive a larger benefit than they would have received if they moved to a a different State or Statewide retirement system.

This impact will not be immediately reflected in plan liabilities or contributions because 1) it does not change anyone’s current accrued benefit but rather changes what is possible to earn in the future and 2) while we can be certain that total participation in DARS will increase over time, it is not possible to accurately predict which other retirement systems will be impacted so we cannot state with any certainty what the changes will be. As participant behavior changes over time, the costs will begin to be reflected in changes to actuarial assumptions for the respective retirement systems.

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. 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	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5-Year Total**
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	**Decrease**	**Unknown**	**Unknown**	**Unknown**	**Unknown**	**Unknown**

Revenues	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5-Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self-Generated	0	Decrease	Decrease	Decrease	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	**$ 0**	**Decrease**	**Decrease**	**Decrease**	**Decrease**	**Decrease**

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines 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. Expenditures for benefits paid by DARS (Agy Self-Generated) are expected to increase because more employees are expected to remain members of DARS under the proposed law compared to the present law. Similarly, expenditures for benefits paid by other state or statewide systems are expected to decrease. The net effect is an overall increase. While, this impact is expected to be minimal in the next five fiscal years, it will grow with time as more people take advantage of this opportunity.

   b. Expenditures for administrative expenses incurred by DARS (Agy Self-Generated) is expected to increase because DARS will have to coordinate and collect contributions from many new employers which never paid-in before. DARS indicated they believe these additional costs can be absorbed within the current budget.

   c. In the short-term (next 5 fiscal years) employer contributions (State General Fund and Local Funds) would be expected to decrease on a dollar basis because the employer contribution rate is lower for DARS than most other State and Statewide retirement systems, in some cases significantly lower. And, given the size of the eligible population to the population of all other retirement systems, the full impact of any changes in employee behavior will not be fully reflected in contribution rates for many years to come. However, as noted in Section I, over the long-term total employer contributions are expected to increase.

   It is not possible to predict with any reasonable accuracy the net impact of the offsetting changes likely to occur under this bill.

2. Revenues:

   Changes in retirement contributions identified as changes in State General Fund and Local Fund expenditures have corresponding changes in Agy Self-Generated revenues.

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.

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 Table A.

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 and revenues as a result of this measure.

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.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits at rates that differ from what was assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an actuarial note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an actuarial note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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 District Attorneys' Retirement System 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 ≥ $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 ≥ $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 ≥ $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 ≥ $500,000, then bill is dual referred to:
Dual Referral: Ways and Means