OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE

House Bill 41 HLS 24RS-173	**Date: March 8, 2024**
Original	**Organizations Affected: FRS**
Author: Adams	
LLA Note HB 41.01	**OR INCREASE APV**

Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to the Firefighters' Retirement System.

Purpose of Bill:
This bill:
1) Combines all outstanding unfunded accrued liability bases into a single base and amortizes them over a 15-year period, approximately 4 years longer than the largest of these bases.
2) Provides employers with the option to establish an annual period during which members may convert any unused leave to service credit, and to have the option of adjusting its leave conversion table on a schedule determined by FRS.
3) Provides for survivor benefits payable to a disabled child if the child had the disability at the time of retirement of the retiree, rather than the death of the retiree, and removes the requirement that the child be dependent on the surviving spouse or other legal guardian.
4) Provides for a self-directed investment account and authorizes retirees to direct FRS to deposit the retirement benefits into such accounts.
5) Removes the requirement for the member to have 20 years of creditable service to participate in the DROP and increases the maximum DROP participation period from three to five years.
6) Limits a disability examination to an evaluation of the condition or injury that qualified the retiree for disability retirement and allows a disability retiree to return to active service for a trial period of not more than 18 months.
7) Provides that retirement benefits nominations are revocable at any time except with regards to a spouse who has a community property interest in the benefit
8) Removes the requirement that a former spouse must consent to being removed as a beneficiary.
9) Allows an employer to develop and implement a plan for increasing the average final compensation of its employees, subject to certain conditions.

Cost Summary[1]: 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 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.

Employer contributions to the system are expected to decrease through 2034 because the unfunded accrued liability will be reamortized and the payment term extended from 11 to 15 years. This will, however, increase the total required contributions over what would have been required during the same 15-year period by approximately $79 million.

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	Increase	Decrease
Local Government Entities	Decrease	0
State Government Entities	0	0
Total	**Decrease**	**Decrease**

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	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**

2024 REGULAR SESSION
ACTUARIAL NOTE HB 41

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.

This bill includes a number of unrelated items, with varying cost implications. Referring to the various items by the numbers on the previous page:

- Item 1 reamortizes the balance of the unfunded accrued liability over 15 years, whereas it is currently scheduled to be fully amortized in approximately 11 years. This will lower annual contributions through 2034, then increase contributions from 2035 through 2038, as the payments toward the unfunded accrued liability are spread over an additional 4 years. The approximate total cost over the 15-year period is $79 million in additional contributions.
- Item 1 also appears to combines the various Merger Loss bases and the Cumulative Non-Merger Bases into a single base. The Merger Loss bases are currently used to allocate certain tax funds to FRS. Eliminating this base is likely to result in a loss of tax fund allocations, further increasing required employer contributions.
- Item 5 allows a member enter the DROP before having earned 20 years of service. This might add some cost to the system if it causes members to retire earlier than eligible under the present law.
- Item 6 might lower the cost of disability benefits paid by the System if some disability retirees are permitted to return to work on a trial basis and determine they can remain employed.
- Item 9 will allow an employer to increase the final average compensation for its employees. This will increase benefits and add administrative costs to the system. However, the employer is required to plan for, and pay for the cost of such increases.

None of the remaining items are expected to add to or change the cost of the System significantly. The net effect of all these proposed changes is expected be an increase in total costs.

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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	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	**Increase**	**Decrease**	**Decrease**	**Decrease**	**Decrease**	**Decrease**

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. Agy Self-Generated expenditures are expected to increase for the following reasons:
      i. Eliminating the suspension of benefits for disability retirees will increase the likelihood some retire earlier, increasing total expected benefit payments.
      ii. Permitting the conversion of unused leave to creditable service would require updates to FRS’ pension administration software and additional staff effort. FRS’ has estimated this to be an initial up-front cost of $25,000 and a minimum of $1,000/year thereafter for software costs.
      iii. An increase in staff time and additional staffing is likely needed to review the annual conversion of unused sick leave discussed above, as well as implement the new provisions 1) permitting the removal of a former spouse as beneficiary and 2) permitting employers to develop and implement a plan for increasing the average final compensation of its employees. The total expected costs will vary significantly based on the number of employees and participating employers who take advantage of the options. FRS has estimated additional staffing and administrative costs to be approximately $1 million in the initial year and approximately $250,000 - $300,000 per year thereafter.

   b. Employer contributions (Local Funds expenditures) to the system are expected to decrease over the next five fiscal years, despite the increase in administrative costs outlined above, due to the reamortization of the unfunded accrued liability. The approximate total cost over the 15-year period is $79 million in additional contributions.

2. Revenues:

   Changes in retirement contributions identified as changes in Local Funds 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.

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.

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 Firefighters' 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