OFFICE OF LEGISLATIVE AUDITOR
2024 REGULAR SESSION
ACTUARIAL NOTE

House Bill 42 HLS 24RS-131	**Date: March 13, 2024**
Original	**Organizations Affected: MPERS**
Authors: Firment and Butler	
LLA Note HB 42.01	**OR SEE ACTUARIAL NOTE APV**

Bill Header: RETIREMENT/MUNICIPAL POL: Provides relative to membership in the Municipal Police Employees' Retirement System.

Purpose of Bill:
This bill:
1) Provides that employees of a municipality will be members of the Municipal Police Employees' Retirement System (MPERS) only if the municipality opts-in to MPERS by entering an agreement with MPERS; provides that anyone who is a member on January 1, 2025, remains a member while he remains employed in such a position even if his employing municipality does not enter an agreement with the system.
2) Removes the option currently available to an employee to opt-out of participating in MPERS if the employer is a participating employer in accordance with item 1, i.e. all future employees who meet the appropriate classification for membership must be members of MPERS or no employees (other than those already a member) will be members of MPERS.
3) Increases Board membership from 15 to 19 members by adding four additional mayors appointed by the Louisiana Municipal Association (LMA).
4) Provides that any action instituted by MPERS to recover delinquent payments or damages associated with delinquent payments is subject to a liberative prescription of three years and is subject to the Louisiana Governmental Claims Act.

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 **not actuarially measurable**. 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	Increase	See Section II
Local Government Entities	See Section II	0
State Government Entities	0	0
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	$ 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**

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 provides that employees of a municipality will be members of the Municipal Police Employees' Retirement System (MPERS) only if the municipality opts-in to MPERS by entering an agreement with MPERS. In order to apply for membership, a municipality must provide an actuarial study, at the employer's expense, showing the total existing accrued liability it would be adding to MPERS, and agree to pay that amount to MPERS.

For employers who are currently participating , who elect to continue, there appears to be very little change. For employers who are not currently participating, while these requirements protect MPERS from taking on additional unfunded liabilities, they add cost for employers applying for membership which may discourage them from doing so. To the extent overall membership increases total costs will increase, but the total contribution rate could decrease as the unfunded accrued liability will be shared across a larger pool of employees.

To the extent that employers currently participating with MPERS elect not to enter an agreement, the employees they hire in the future will not be eligible for membership, and MPERS active membership will tend to decrease. This provision would lower the overall cost to the System over time; however, given the current level of the unfunded accrued liability (UAL) if these employers are not deemed to have a partial dissolution, where they are required for the payment of a pro rata share of the system's UAL, this burden would shift to any remaining employers via an increase in the employer contribution rate.

This bill also increases Board membership from 15 to 19 members by adding four additional mayors appointed by the Louisiana Municipal Association (LMA). This provision would add ongoing administrative costs to the System, primarily associated with travel and training costs of the four new trustees, and possibly additional costs to modify the existing boardroom or find a more suitable location for board meetings.

Finally, this bill provides that any action instituted by MPERS to recover delinquent payments or damages associated with delinquent payments is subject to a liberative prescription of three years and is subject to the Louisiana Governmental Claims Act. This provision is not expected to add to the cost of the System, but it may limit the amount MPERS may recover in such judgements.

Any additional changes implemented by this bill are estimated to have minimal impact on the overall costs of MPERS.

The net impact of these changes depends heavily on the elections made by eligible employers to participate or not in the future. It is not possible for us to determine the overall impact at this time.

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	See Below	See Below	See Below	See Below	See Below	See Below
Annual Total	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**

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	See Below	See Below	See Below	See Below	See Below
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**	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**

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 to account for an increase in administrative costs associated with 1) travel and training costs for four additional trustees of approximately $20,000-$30,000 per year, 2) potential one-time construction costs to renovate the board room or on-going costs to find and utilize an appropriate meeting space, and 3) short-term staff costs to manage and review potential agreement with the various employers.

b. It is not possible to determine the overall impact on a change in employer contributions (Local Funds expenditures). Employer contributions consist of a per-person variable cost and a “fixed” cost. To the extent employer participation increases, total employer contributions will increase. If employer participation decreases as a result of this bill, the per-person variable cost will decrease but the “fixed” costs remain. These costs may be shifted to other employers but the net amount to MPERS will remain the same.

c. For employers who are not currently participating, but wish to participate in the future, expected administrative costs will go up in order to provide the actuarial study showing the total existing accrued liability it would be adding to MPERS. While not explicitly required by law, it is reasonable to assume MPERS will require this study be completed by the system’s actuary. It is also likely to be most efficient as well. The expected cost will depend on the number of current active employees and the quality of payroll data provided. On average, this will likely cost somewhere from $1,000 - $5,000 and will be billed by the retirement system as a pass-through cost. However, it is assumed that employers not currently participating will not make an election to participate during the five-year measurement period.

2. Revenues:

Changes in retirement contributions identified as changes in 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.

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.

No member of a 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 2024 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 bill is dual referred to: **Dual Referral: Appropriations**
☐ 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**	☐ 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**