

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

<b>House Bill 42 HLS 24RS-131</b> <b>Reengrossed w/SCA #2278</b> <b>Author: Firmant and Butler</b> <b>LLA Note HB 42.04</b>	<b>Date: April 26, 2024</b> <b>Organizations Affected: MPERS</b>  <b>RE1 INCREASE APV</b>
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**Bill Header:** RETIREMENT/MUNICIPAL POL: Provides relative to membership in the Municipal Police Employees' Retirement System.

**Purpose of Bill:**

- 1) Provides eligible employees 30 days from date of employment to opt-out of participation in MPERS.
- 2) Provides that the application for survivor benefits must be received before 120 days after the death of the retiree for the benefits to become effective on the day following the member's death, otherwise the benefits become effective the first month following 30 days from the date that the application is complete.
- 3) Provides for an optional retirement benefit program called the Back-Deferred Retirement Option Plan (Back-DROP). Instead of receiving a normal retirement benefit pursuant to present law, an eligible member of MPERS may elect to retire and have his benefits structured, calculated, and paid as provided by the Back-DROP. The proposed Back-DROP provisions have a delayed effective date.
- 4) Increases Board membership from 15 to 16 members by increasing the number of mayors appointed by the Louisiana Municipal Association (LMA) from two to three and requires that at least one mayor shall be the mayor of a town or village.
- 5) Provides that any action or claim instituted by MPERS, its board of trustees, any current or past employee or member, or any other claimant, against any employer or member, to recover delinquent payments, benefits, or damages of any kind is subject to a liberative prescription of three years and is subject to the Louisiana Governmental Claims Act.
- 6) Permits the board of trustees to approve payment plans for up to 15 years for delinquent payments, in certain circumstances.
- 7) Permits an employer or an employee to purchase eligible service credit prior to June 30, 2021, in certain circumstances.
- 8) Requires a 2/3rds vote of the board to submit a request to the Treasurer to garnish monies available for distribution to a municipality with a population greater than 2,500, subject to a final judgement of delinquent contributions from a court of competent jurisdiction.
- 9) Increases the period following retirement during which benefits must be suspended for certain retirees who return to work, but who do not meet the definition of employee, from 60 days to 12 months.

**Cost Summary**<sup>1</sup>: 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 incurred by the retirement systems* from the proposed law is estimated to **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.

<b>Five Year Net Fiscal Costs Pertaining to:</b>	<b><u>Expenditures</u></b>	<b><u>Revenues</u></b>
The Retirement Systems	See Section II	Increase
Local Government Entities	Increase	0
State Government Entities	<u>0</u>	<u>0</u>
<b>Total</b>	<b>Increase</b>	<b>Increase</b>

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.

<b>Five Year Net Fiscal Costs Pertaining to:</b>	<b><u>Expenditures</u></b>	<b><u>Revenues</u></b>
Local Government Entities	See Section III	\$ 0
State Government Entities	<u>0</u>	<u>0</u>
<b>Total</b>	<b>See Section III</b>	<b>\$ 0</b>

<sup>1</sup> This is a different assessment from the actuarial cost requiring a 2/3<sup>rd</sup> 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 42

### 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.

There are many changes included in HB42; some are likely to result in savings to the retirement system (e.g. limiting the ability to receive retroactive payments of benefits, increasing the suspension of benefits period for certain retirees who return to work) while others are expected to result in cost increases to the system (e.g. introducing a new Back-DROP provision, one additional trustee). The following outlines expected actuarial impact of the various provisions.

1. **Back DROP** – The introduction of the Back DROP provision is likely to result in cost increases over time. Present law includes a forward DROP, where retirement eligible members can “retire on paper” while continuing to work. Retirement benefits are calculated as if this member retired at their DROP date, and monthly payments accumulate in a separate account until the member terminates employment or the end of the maximum 36-month DROP participation period. To the extent these members return to work following DROP participation, they accrue a supplemental benefit based on the post-DROP service and pay. Since a forward DROP requires a decision be made prior to actual retirement, some members may not make the optimal decision that ultimately maximizes the financial value of their benefit. The Back DROP provision permits a member to “retire on paper” at a date up-to 36 or 48 months prior to their actual retirement date, and receive the accumulated payments as a lump sum distribution. Given the decision is made at actual retirement date, members are better able to elect the retroactive DROP entry date to fully maximize the benefit value. There is a delayed effective date for this provision, which will limit the near term cost. However, once this provision is part of statute, the systems’ actuary would be required to include the expected cost of this provision, resulting in an increase in liability and employer contributions calculated in the next valuation.
2. **Louisiana Governmental Claims Act** – The actuarial impact of this provision is indeterminable at this time. Proposed law states that certain actions or claims instituted by MPERS and certain other parties are subject to the Louisiana Governmental Claim Act. According to MPERS, this will increase administrative costs because it changes the district under which claims are brought from East Baton Rouge to the local jurisdiction of the employer; which will increase associated costs of litigation due to additional mileage, hotels and meals for staff, attorneys, and the system actuary to travel to these locations. To the extent administrative costs would increase, this will be reflected in an increase employer contributions. However, the overall impact relies heavily on the details of individual cases involving MPERS and local governments across the state and is therefore not determinable at this time.

MPERS also states the general process to collect delinquent payments will be significantly more difficult and time consuming. Delinquent payments are not considered assets of the plan and are not considered in the calculation of employer contributions. They are only reflected in assets and impact the employer contribution calculation once received. Therefore this has no impact on current contribution calculations. To the extent delinquent payment collections are limited, future employer contributions would not decrease as much as they otherwise might. Regardless, the net effect to the retirement system is \$0 because this is shifting the cost from one local government entity (generally a non-participating entity) to another (the participating local government entities).

3. **Three Year Liberative Prescription and Service Purchase** – The actuarial impact of these provisions are indeterminable at this time. Proposed law limits the period for which MPERS may require payment for individuals who should have been enrolled in the plan, but were not, to 3 years (i.e. June 30, 2021). However, it permits the employer or the employee to purchase eligible service credit for periods prior to June 30, 2021.

Present law outlines who should, and should not, be enrolled as a member of MPERS. Potential members who work for municipalities that participate in Social Security have the option, on an individual basis, to opt not to participate in MPERS. According to MPERS, there are likely to be a large number of towns and villages who have not followed proper procedure related to individual officers choosing to opt-out; as well as municipalities whose employees do not have the option to opt-out but have not enrolled those employees. Therefore, under present law, MPERS is due contributions related to their employment, and to the extent these individuals are currently employed or would have been vested at the time of termination, MPERS would incur an associated liability for benefits due. However, what MPERS might receive in delinquent contributions, and associated liabilities, is not clear. The ultimate result of present law is subject to numerous outstanding, and potential, lawsuits. Proposed law limits what can be collected, and provides an opportunity for additional contributions to purchase eligible service credit. It is not possible to determine the differences in what would be collected, and what liabilities would be incurred, by MPERS between present and proposed law.

4. **Trustees** – Administrative expenses are expected to increase to account for additional travel and training costs of one new trustee. Anticipated administrative costs are included as part of the development of the annual employer contribution, expressed as a percent of payroll. An additional \$9,250 per year in administrative cost would not have a discernable effect on the development of the employer contribution rate.
5. **Retirees Who Return to Work** – This provision is expected to decrease benefit payments and employer contributions.

Present law has different requirements regarding the suspension of benefits for retirees who are reemployed by an MPERS’ employer.

- a. Retirees who return to full-time employment in a position defined as an employee (i.e. generally as a police officer) must have their benefits suspended and will accrue a supplemental benefit payable upon re-retirement.
- b. Retirees who return to work as either a) a police officer employed for 50 hours or less during a month or b) an elected official other than a police chief, must have their benefit suspended during any employment that occurs during the 60 days following the effective date of their retirement.
- c. Retirees who return to work but are not classified as employees, except as provided in item b above, must have their benefit suspended during any employment that occurs during the 12 months following the effective date of their retirement.

When retirees are permitted to return-to-work without a suspension of retiree benefit payments, participants are incentivized to retire earlier than they otherwise might knowing they can immediately (or shortly thereafter) return to work and receive both their retirement benefits and active employment pay. This increases total expected benefit payments and total liability because

**2024 REGULAR SESSION  
ACTUARIAL NOTE HB 42**

although the benefit may be slightly lower the total time a benefit is paid offsets any savings from a lower benefit amount. Employer contribution requirements also increase because there is a shorter period over which to fund the retirement benefit.

Proposed law repeals the provisions applicable to group b above, which would result in them being included in the provisions outlined for group c, thereby requiring retirement benefits be suspended if they return to work during the 12 months following the effective date of retirement. This has the effect of decreasing benefits paid, and potentially incentivizing employees to delay retirement.

The decrease in costs associated with item 5 is expected to be minimal compared to the increase in costs associated with items 1 and 4, resulting in an overall increase in both the net actuarial present value of benefits and employer contributions. All other provisions are expected to minimal or have no actuarial impact.

**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**

<b>Expenditures</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>5-Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below					
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	<u>Increase</u>	<u>Increase</u>	<u>Increase</u>	<u>Increase</u>	<u>Increase</u>	<u>Increase</u>
<b>Annual Total</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>

  

<b>Revenues</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>5-Year Total</b>
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Annual Total</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>	<b>Increase</b>

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 is expected to 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
  - i. Decrease because retirees who have returned to work without a suspended benefit, the group identified in Section I, Item 5.b., will be required to have their benefits suspended if they continue to work during the 12 month period immediately following retirement.
  - ii. Increase to account for an increase in administrative costs associated with travel and training for one additional trustee. MPERS has estimated these costs to be approximately \$9,250 per year for a single trustee (\$5,250 in per diem calculated based on the actual mileage, hotel, and meal reimbursement for the current trustee that travels the farthest plus \$4,000 for educational conferences).
  - iii. The net effect of these changes is indeterminable at this time.
- b. Agy Self-Generated expenditures may increase as a result of making certain actions or claims instituted by MPERS subject to the Louisiana Governmental Claim Act, which changes the district under which claims are brought from East Baton Rouge to the local jurisdiction of the employer. However, the overall impact relies heavily on the details of individual cases involving MPERS and local governments across the state and is therefore indeterminable at this time
- c. Local Funds expenditures are expected to
  - i. Increase as a result of the introduction of the Back DROP provision. Refer to Section I, Item 1, for a more detailed discussion.
  - ii. Increase as a result of the increase in administrative expenses associated with one additional trustee, as noted above.
  - iii. Decrease due to the increase in suspension of benefits period for certain retirees. Refer to Section I, Item 5, for a more detailed discussion.
  - iv. The expected increases from items i. and ii. more than offset the decrease from item iii. While the exact increase is not determinable at this time, an increase in the employer contribution rate of only 0.03% would exceed \$100,000 in each of the next three fiscal years.

2. Revenues:

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

**2024 REGULAR SESSION  
ACTUARIAL NOTE HB 42**

**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 effect on fiscal administrative costs is indeterminable at this time. Making certain actions or claims instituted by MPERS subject to the Louisiana Governmental Claim Act changes the district under which claims are brought from East Baton Rouge to the local jurisdiction of the employer, which may decrease fiscal administrative costs of local government entities. However, the overall impact relies heavily on the details of individual cases involving MPERS and local governments across the state.

**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.

**2024 REGULAR SESSION  
ACTUARIAL NOTE HB 42**

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 a 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  $\geq$  \$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**