

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

House Bill 981 HLS 24RS-741 Reengrossed Author: Melerine LLA Note HB 981.02	Date: May 13, 2024 Organizations Affected: All Public Retirement Systems RE SEE ACTUARIAL NOTE FC
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Bill Header: RETIREMENT SYSTEMS: Provides relative to public retirement system proxy voting on shareholder sponsored proposals

Purpose of Bill: Requires that if a proxy advisory firm contracted with a public retirement system recommends a vote on a shareholder proposal that is not consistent with the board of directors of that company, the proxy advisory firm must agree its recommendation, advice, and analysis is in the best financial interest of the retirement system. Also provides the retirement system will not be deemed to violate their fiduciary duty if they do not vote proxies.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS¹

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.

The proposed legislation is not expected to have any measurable actuarial effects on any retirement system.

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	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>	<u>5-Year Total</u>
State General Fund	See Below	See Below	See Below	See Below	See Below	See Below
Agy Self-Generated	See Below	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	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	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>	<u>5-Year Total</u>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below	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	See Below	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: The effect on retirement system administrative costs (Agy Self-Generated expenditures), and corresponding employer contributions (State General Fund and Local Funds expenditures), are indeterminable at this time.

Both Louisiana State Employees’ Retirement System (LASERS) and Teachers’ Retirement System of Louisiana (TRSL) contract with one of the largest proxy voting vendors in the world. This vendor has indicated they would not be able to agree to such a clause in their contract. There are a limited number of vendors worldwide who provide this service so it is not clear if another vendor would be able to perform the required services. Assuming no other vendor is able, LASERS and TRSL have indicated they would likely stop voting proxies for directly held equity securities.

As far as we are aware, most other retirement systems rely on their investment managers to perform proxy voting services and do not contract directly with a proxy advisory firm. To the extent another retirement system has such a contract, they would be faced with similar options.

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)**”).

<p>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.</p>	 <p>Kenneth J. “Kenny” Herbold, ASA, EA, MAAA Director of Actuarial Services Louisiana Legislative Auditor</p>
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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.

Other than the impact on employer contribution rates and administrative expenses for TRSL and LASERS which are both 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.

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.

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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 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