


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 25**

<p>House Bill 25 HLS 13RS-270 Engrossed with House Retirement Committee Amendment #1717</p> <p>Author: Representative Vincent J. Pierre Date: April 24, 2013</p> <p>LLA Note HB 25.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG INCREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 25 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides for the conversion of unused sick and annual leave to retirement credit for members of the Firefighters' Retirement System

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

Actuarial Cost/(Savings) to Retirement Systems and OGB	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

Actuarial Cost to:	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-2018	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-2018	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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ACTUARIAL NOTE HB 25**

Bill Information:

Current Law

Current law regarding the Firefighters' Retirement System (FRS) does not contain any provision for the conversion of accumulated unused annual and sick leave into service credits usable in the calculation of benefits.

Proposed Law

Under HB 25, each employer participating in FRS may make an irrevocable election to have its employees convert unused and unpaid leave into creditable service at the time of retirement. Rules for converting unused leave, which will only be applicable to employees of electing employers, are summarized below:

1. All unused annual and sick leave for which payment by law cannot be made at the time of retirement shall be converted into creditable service. This conversion will be made in accordance with the following table.

Days of Unpaid Leave	Service Credit as a Percentage of a Year
1 – 26	10%
27 – 52	20%
53 – 78	30%
79 – 104	40%
105 – 130	50%
131 – 156	60%
157 – 182	70%
183 – 208	80%
209 – 234	90%
235 – 260	100%

2. There shall be no limit on the amount of unused leave that may be credited.
3. Regardless of the number of service credits granted, a member's benefit may not exceed 100% of his final average compensation.
4. The service credits granted for unpaid leave may not be used for the purpose of determining a member's eligibility for a benefit.
5. If a member leaves employment and then returns to work, he must be reemployed 18 months before unused leave credits can be used for benefit calculation purposes.
6. The actuarial cost associated with the additional benefit granted due to unused leave service credits will be calculated for each retiring member. The employer of each retiring member will pay the additional actuarial cost so determined within 30 day of the employee's retirement.

Implications of the Proposed Changes

Employees of an employer participating in FRS that make an irrevocable election to provide this benefit for its employees will be able to convert unused and unpaid annual sick leave into service credits and thereby increase their pension. The actuarial cost of the additional benefits provided will be borne by the employer of the retiring member with the payment due to FRS within 30 days of the member's retirement.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 25 will have the following effects on the various components of actuarial cost.

1. The actuarial present value of future benefit payments will increase.
2. The actuarial accrued liability of FRS will increase.
3. The unfunded accrued liability of FRS will not change once the employer pays the additional actuarial cost associated with a retiring member.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 25 for post-employment benefits other than pensions.

**2013 REGULAR SESSION
ACTUARIAL NOTE HB 25**

Analysis of Fiscal Costs

HB 25 will have the following effect on fiscal costs during the five-year fiscal measurement period.

Expenditures:

1. FRS expenditures (Agy Self-Generated) will increase because benefits paid to members will be larger.
2. Expenditures from local funds will increase. Contribution requirements for employers electing to provide unpaid leave conversion rights will increase. Contribution requirements for employers not electing to provide conversion rights will not increase.
3. Expenditures from local funds will decrease to the extent that rules of a local employer provide for the lump sum payment of unused annual and sick leave at retirement. Conversion of this leave into pension credits is less expensive than payment of a lump sum value. However, rules regarding the payment of unused leave vary widely from fire district to fire district and no universal conclusion can be drawn.

Revenues:

- FRS revenues will increase to the extent that employers elect to provide conversion rights to their employees; employees obtain additional service credits and larger pension benefits; and the increase in the actuarial cost is paid by the employer within 30 days of retirement.

FRS expenditures are expected to increase more than \$100,000 in the first three years of the five-year fiscal measurement period.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

- 13.5.1 \geq \$100,000 Annual Fiscal Cost
- 13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

- 6.8(F) \geq \$500,000 Annual Fiscal Cost
- 6.8(G) \geq \$500,000 Annual Tax or Fee Change