2013 REGULAR SESSION
ACTUARIAL NOTE HB 65

House Bill 65 HLS 13RS-65
Engrossed with HCA #3725

Author: Representative Robert A. Johnson
Date: May 29, 2013

LLA Note HB 65.02

Organizations Affected:
Hazardous Duty Services Plan in the Louisiana State Employees' Retirement System

EG DECREASE APV

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 65 provides compliance with the requirements of R.S. 24:521.

Paul T. Richmond, ASA, MAAA, EA
Manager Actuarial Services

<u>Bill Header:</u> RETIREMENT/STATE EMPS: Provides relative to the payment of insurance premiums for certain retirees of the Hazardous Duty Services Plan in the La. State Employees' Retirement System

<u>Cost Summary:</u>

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

<u>Estimated Actuarial Impact:</u>

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/(Savings) to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Increase
Total	Decrease

<u>Estimated Fiscal Impact:</u>

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	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Decrease	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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	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

Bill Information:

Current Law

Under current law, insurance premiums for retirees of the Hazardous Duty Plan of the Louisiana State Employees' Retirement System (LASERS), who participate in benefit programs offered by the Office of Groups Benefits (OGB), are partially paid for by the state. The premium supplement is available to a retiree of the Hazardous Duty Plan if he satisfies one of the following conditions.

1. He retires with at least 20 years of service and receives an actuarially reduced benefit. The premium supplement is paid by his former employer regardless of whether or not any of the service is transferred service.

2. He retires with an unreduced benefit and none of his service is transferred service. Eligibility requirements for an unreduced benefit are summarized below.

    a. Any age with 25 or more years of service, or

    b. Age 55 or later with 12 years or more years of service.

In other words, a member of the Hazardous Duty Plan with transferred service can receive the premium supplement only if he retires early with an actuarially reduced benefit.

Proposed Law

Under HB 65, a retiree from the Hazardous Duty Plan with transferred service who retired on or before June 30, 2013, will receive the premium supplement beginning July 1, 2013.

However, subsection (E), as amended by HB 65, now pertains only to persons retiring on or before June 30, 2013. As a result, Hazardous Duty members retiring on or after July 1, 2013, will receive the premium supplement regardless of whether they have transferred service credits.

Implications of the Proposed Changes

If HB 65 is enacted, all retirees of the Hazardous Duty Plan with transferred service credits will receive premium supplements.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Under current law, a transfer of service credits to the Hazardous Duty Plan disqualifies a member from ever receiving a premium supplement unless he retires early with an actuarially reduced benefit. Members with nearly identical service credits earned while participating in the Hazardous Duty Plan are treated very differently merely because one member has transferred service and the other does not. For example:

Member A

Member A has earned 23 years of service under the Hazardous Duty Plan and one year of transferred service for a total of 24 years of service credit. He retires early with an actuarially reduced pension. He receives the premium supplement because he retired early with an actuarially reduced pension.

Member B

Member B has earned 25 years of service under the Hazardous Duty Plan and has no transferred service. He retires with an unreduced pension and receives the premium supplement.

Member C

Member C has earned 25 years of service under the Hazardous Duty Plan and has one year of transferred service for a total of 26 years of service. He retires with an unreduced pension. Even though Member C has the same length of service under the Hazardous Duty Plan as Member B, he is disqualified from ever receiving the premium supplement merely because he has one year of transferred service.

Current law encourages a member with transferred service to retire earlier than he might have otherwise. By retiring the day before he is credited with 25 years of total service, he receives a minimal actuarial reduction but is entitled to receive the premium supplement. If he delays his retirement, even for one day, he forfeits the supplement.

Enactment of HB 65 will have the following effect on LASERS.

1. The present value of future benefit payments will decrease because members with transferred service will be less likely to retire early and more apt to delay retirement.

2. Employer normal costs will decrease as retirement rates are adjusted to reflect later retirement patterns.

3. Actuarial accrued liabilities will decrease in future years because later retirements will produce actuarial gains until such time as retirement rates are adjusted to reflect later retirement patterns.

4. Employer amortization costs will decrease to account for actuarial gains that will occur.

5. Employer contribution requirements will decrease.

Since the inception of the Hazardous Duty Plan on January 1, 2011, 56 members have retired. All have retired with transferred service. However, 29 of these members retired early with an actuarially reduced benefit and are receiving premium supplements. The remaining 27 members retired with unreduced benefits and do not receive supplements.

If HB 65 is enacted, employers will pay more in premium supplements.

1. Twenty-seven retirees of the Hazardous Duty Plan will begin to receive employer premium supplements. If we assume the supplement is about $250 per month, expenditures by former employers of these members will increase about $81,000 a year.

2. Future retirees with transferred service who retire with unreduced benefits will receive premium supplements under HB 65. Increases in expenditures associated with these future retirees cannot be reliably measured.

3. Members with transferred service who retire with an actuarially reduced benefit under current law will delay retirement under HB 65. In this case, supplements paid by employers will be reduced. Under HB 65, such individuals are not likely to retire early but rather are likely to delay retirement. The employer saves the premium supplement during the period from the date the member would have retired early under current law to the date he actually retires because of HB 65.

4. The net effect of HB 35 will be an increase in expenditures relative to premium supplements. These expenditures will be incurred by the former employers of the retirees.

Other Post Retirement Benefits

The present value of future benefit payments for post-employment benefits other than pensions will increase because members with transferred service will be receiving employer premium supplements under HB 65. Without HB 65, the supplements would not be paid by former employers, but by retirees. This will be offset to some extent by savings that will occur during the period of delayed retirement.

Analysis of Fiscal Costs

HB 65 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from the General Fund will decrease in FYE 2015 to the extent that employer contribution requirements to LASERS decrease.

2. Expenditures from the General Fund will increase in FYE 2014 to the extent that premium supplements will be paid under HB 65 that would not have been paid otherwise. This increase in expenditures is expected to exceed the decrease in expenditures identified in item 1 above. The net increase during the first three years of the measurement period is expected to exceed $100,000.

3. Expenditures from LASERS (Agy Self-Generated) will decrease beginning in FYE 2014 to the extent that a member of the Hazardous Duty Plan retires later than he would have without the enactment of HB 65.

4. Expenditures from OGB (Agy Self-Generated) are not expected to change. Insurance benefits will be paid regardless of whether a member is active or retired and regardless of who pays the premium.

5. Total expenditures are expected to decrease. The decrease in LASERS expenditures is likely to exceed the increase in General Fund expenditures.

Revenues:

1. LASERS revenues (Agy Self-Generated) will decrease beginning FYE 2015 to the extent that employer contribution requirements decrease.

2. OGB revenues (Agy Self-Generated) are not expected to change. Insurance premiums will be paid regardless of whether the member is active or retired and regardless of whether it is paid by the employee, the employer, or partially by both.

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	**House**
[x] 13.5.1 ≥ \$100,000 Annual Fiscal Cost	[ ] 6.8(F) ≥ \$500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ \$500,000 Annual Tax or Fee Change