2013 REGULAR SESSION
ACTUARIAL NOTE HB 65

House Bill 65 HLS 13RS-65 **Reengrossed with House Floor Amendment #3816** **Author: Representative Robert A. Johnson** **Date: May 30, 2013** **LLA Note HB 65.03** **Organizations Affected:** **Hazardous Duty Services Plan in the Louisiana State Employees' Retirement System** **RE INCREASE 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 **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: 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

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation 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/(Savings) to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase
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

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	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	$ 0	Increase	Increase	Increase	Increase	Increase

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<u>Bill Information:</u>

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.

Current law will continue to apply to any member of the Hazardous Duty plan retiring on or after July 1, 2013.

Implications of the Proposed Changes

If HB 65 is enacted, retirees of the Hazardous Duty Plan who retired on or before June 30, 2013, with transferred service credits will receive premium supplements beginning July 1, 2013.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

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. 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.

In addition, it is likely that some members of the Hazardous Duty plan with transferred service credits will retire on or before June 30, 2013, merely to be eligible to receive the premium supplement. As a result, the actuarial present value of future benefit payments for LASERS will increase, the accrued liability will increase and employer contribution requirements will increase.

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.

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 increase in FYE 2014 to the extent that premium supplements will be paid under HB 65 that would not have been paid otherwise. The net increase during the first three years of the measurement period is expected to exceed $100,000.

2. Expenditures from the General Fund will increase to the extent that employer contribution requirements to LASERS increase.

3. Expenditures from LASERS (Agy Self-Generated) will increase because some Hazardous Duty members will retire earlier that they would have otherwise.

Revenues:

1. 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.

2. LASERS revenues will increase to the extent that employer contribution requirements increase.

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