2014 REGULAR SESSION
ACTUARIAL NOTE HB 7

House Bill 7 HLS 14RS-294 **Original** **Author: Representative J. Kevin Pearson** **Date: April 8, 2014** **LLA Note HB 7.01** **Organizations Affected:** **Municipal Employees' Retirement System** **OR DECREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 7 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/MUNICIPAL EMP: Provides relative to the accrual rate for members of Plan A of the Municipal Employees' Retirement System first hired on or after July 1, 2014.

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

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:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
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

2014 REGULAR SESSION
ACTUARIAL NOTE HB 7

<u>Bill Information:</u>

Current Law

Current law establishes Tier 2 benefit provisions for members of the Municipal Employees' Retirement System (MERS) Plan A first employed on or after January 1, 2013. The benefit accrual rate for Tier 2 members is 3.0% per year of service multiplied by final average compensation based on 5 years.

Current law provides additional Tier 2 benefit provisions for city marshals and deputy city marshals first employed on or after January 1, 2013, except those serving in Bossier City or Ruston on June 30, 2003. The additional benefit is 3.0% x years of service as a marshal or deputy marshal multiplied by a 6 year average of final compensation attributable to supplemental earnings received as a marshal.

Proposed Law

HB 7 provides that the benefit accrual rate Tier 2 members first employed on or after July 1, 2014, will be 2.5% x years of service multiplied by the average of final compensation over a 5 year period.

HB 7 removes from Tier 2 benefit provisions the exception for marshals serving in Bossier City or Ruston on June 30, 2003. To be a Tier 2 member, a member of MERS must have been first employed on or after January 1, 2013. Therefore he could not have been in service as a marshal for these cities on June 30, 2003.

HB 77 provides that the Tier 2 additional benefit accrual rate applicable to city marshals first employed on or after July 1, 2014, will be 2.5%.

Implications of the Proposed Changes

If HB 7 is enacted, the accrual rate for Tier 2 members of MERS Plan A first employed on or after July 1, 2014, will be changed from 3% to 2.5%.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

The effect that HB 7 will have on future employer contribution requirements can be approximated by comparing the component of the normal cost rate attributable to retirement benefits for active members calculated using a 2.5% accrual with the same component using a 3.0% accrual. The difference between these two values is 8.57% of pay. This is only an approximation, because the 8.57% cost reduction is based on the assumption that active members in MERS Plan A 25 to 30 years from now will have the same age, service and salary characteristics as current active members.

Stated another way, if the census characteristics of active members 25 to 30 years from now are similar to current census characteristics, then the employer contribution rate 25 to 30 years from now will be 8.57% lower under HB 7 than what it will be if HB 7 is not enacted. In today's dollars, that means a savings of about $14.8 million a year.

Other Post-Employment Benefits

Actuarial costs associated with HB 7 for post-employment benefits other than pensions are likely to decrease. Members will retire later than they would have otherwise and, as a result, the liability associated with these benefits will decrease.

Analysis of Fiscal Costs

HB 7 will have the following effects on fiscal costs.

Expenditures:

1. Expenditures by MERS (Agy Self-Generated) will decrease in the future because retirement benefits for those first employed on or after July 1 2014, will be less. However, benefit payments in the five year fiscal measurement period are not likely to change because members who retire during this period will have an employment date that is before July 1, 2014.

2. Expenditures from Local Funds will decrease. Initially the decrease in employer contribution requirements will be small. However, savings attributable to HB 7 will increase year after year as members first employed on or after June 30, 2014, replace those hired before that date.

Revenues:

3. Revenues for MERS (Agy Self-Generated) will decrease. Initially the decrease in revenues will be small. However, the decrease in savings attributable to HB 7 will increase year after year as members first employed on or after June 30, 2014, replace those hired before that date.

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ACTUARIAL NOTE HB 7

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in HB 7 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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**
☐ 13.5.1: Annual Fiscal Cost ≥ \$100,000	☐ 6.8(F)(1): Annual State Fiscal Cost ≥ \$100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ \$500,000	☐ 6.8(F)(2): Annual State Revenue Reduction ≥ \$500,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ \$500,000