


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 64**

<p>House Bill 64 HLS 14RS-404 Original Revised</p> <p>Author: Representative Kenny E. Havard Date: April 17, 2014</p> <p>LLA Note HB 64.01</p> <p>Organizations Affected: Louisiana Employees' Retirement System</p> <p>OR 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 64 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/STATE EMPS: Provides that certain employees of the Eastern La. Mental Health System are eligible for membership in the Hazardous Duty Services Plan in the La. State Employees' 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 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.

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

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

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. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2014-15	2015-16	2016-17	2017-18	2018-2019	5 Year Total
State General Fund	\$ 0	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	2014-15	2015-16	2016-17	2017-18	2018-2019	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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Bill Information:

Current Law

Under current law, a person employed by the Eastern Louisiana Mental Health System must become a member of the Rank and File sub plan of LASERS.

Proposed Law

If HB 64 is enacted, a person first employed by the Eastern Mental Health System on or after July 1, 2015, must become a member of the Hazardous Duty sub plan of LASERS. This applies to employees whose duties include mental health evaluation, treatment, care, or rehabilitation of or security for patients in the forensic program.

In addition, such an employee first employed before July 1, 2015, will have the opportunity to become a member of the Hazardous Duty sub plan of LASERS by transferring credits from the Rank & File sub plan to the Hazardous Duty plan and paying any actuarial cost associated with such transfer. After such a transfer, the employee will accrue benefits at 3.33% per year of service instead of 2.50%

Implications of the Proposed Changes

Employees of the Eastern Louisiana Mental Health System will become members of the LASERS Hazardous Duty sub plan and receive greater benefits at retirement.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 64 contains a benefit provision having an actuarial cost. The following pertains to employees whose duties include mental health evaluation, treatment, care, or rehabilitation of or security for patients in the forensic program.

1. Employees of the Eastern Louisiana Mental Health System first employed on or after July 1, 2015, will become members of the LASERS Hazardous Duty sub plan and receive larger benefits at retirement. As a result the actuarial present value of future benefit payment for LASERS will increase.
2. Employees of the Eastern Louisiana Mental Health System who voluntarily elect to participate in the LASERS Hazardous Duty sub plan must pay the actuarial cost associated with their election. After transferring to the Hazardous Duty plan, the employee will accrue benefits at 3.33% per year of service instead of 2.5%. As a result, the actuarial present value of future benefit payments for LASERS will increase.

Currently there are 4,840 members of LASERS working in hazardous duty positions. Of these, 1,596 are members of the Hazardous Duty sub plan; the rest are members of the other sub plans pertaining to hazardous duty personnel. According to the Department of Health and Human Services, 606 employees of the Eastern Louisiana Health System would be eligible to transfer from the Rank and File sub plan for LASERS to the Hazardous Duty sub plan. This would be a 38.0% increase in membership for the Hazardous Duty sub plan and a 12.5% increase in the total number of hazardous duty positions.

Other Post-Employment Benefits

Actuarial costs associated with HB 64 relative to post-employment benefits other than pension will increase. The larger benefits available under HB 64 will lead individuals to retire earlier than they would have otherwise. Therefore, post-employment benefits will be available to such retirees earlier than they would have without HB 64.

Analysis of Fiscal Costs

HB 64 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from General Funds will increase as employer contributions increase to accommodate the larger cost associated with employees of the Health Center who will be participating in the LASERS Hazardous Duty sub plan.
2. Expenditures from LASERS (Agy Self-Generated) will increase as benefits paid to applicable employees of the Mental Health facility retire and begin to collect benefits. Because of the transfer right, an employee of the mental health facility could transfer to the Hazardous Duty plan, earn a couple of years of service at the higher accrual rate and then retire.

Revenues:

- LASERS revenues (Agy Self-Generated) will increase as employer contributions increase to accommodate the larger cost associated with employees of the Health Center who will be participating in the LASERS Hazardous Duty sub plan.

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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 64 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

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

House

- 6.8(F)(1): Annual State Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq 500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000