2015 REGULAR SESSION
ACTUARIAL NOTE SB 17

Senate Bill 17 SLS 15RS-103 **Enrolled** **Author: Senator Elbert L. Guillory** **Date: June 1, 2015** **LLA Note SB 17.03** **Organizations Affected:** **Sheriffs' Pension and Relief Fund** **EN 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 SB 17 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: SHERIFFS PEN/RELIEF FUND. Provides relative to benefits and funding. (2/3 – CA10s29(F))(6/30/15)

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	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:	**Change in the Actuarial Present Value**
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 the retirement systems and other government entities. 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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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

<u>Bill Information:</u>

Current Law

Purchase of Permissive Service Credit

Current law provides for the purchase of permissive service credit as defined under the federal Pension Protection Act of 2006. Any member of Sheriffs' Pension & Relief Fund (SPRF) with at least 12 years of creditable service may purchase up to ***three*** years of permissive service credit at the time of retirement. Such service credit may only be purchased in full-month increments by paying the total cost of the actuarial value of benefits to be purchased. On the day such purchase is completed, the member shall terminate employment and retire effective on the next business day.

The term "permissive service credit" is defined in the Pension Protection Act of 2006, Section 415(n) of the Internal Revenue as service credit:

i. That is recognized by the governmental plan for purposes of calculating a participant's benefit under the plan,
ii. Which such participant has not received under such government plan, and
iii. Which such participant may receive only by making a voluntary additional contribution, in an amount determined under such governmental plan, which does not exceed the amount necessary to fund the benefit attributable to such service credit.

Funding Deposit Account

If the rate set by the SPRF board of trustees for the prior year exceeds the rate calculated by the actuary in the current year, the board of trustees may adopt the prior year's rate instead of the rate determined by the actuary. Employer contributions attributable to the rate being set at a level higher than the rate calculated by the actuary will be deposited into the Funding Deposit Account. These funds may be used for the following purposes:

1) To reduce the unfunded accrued liability.
2) To reduce the present value of future normal costs.
3) To pay all or a portion of any future net direct employer contributions.
4) To provide for permanent benefit increases authorized under R.S. 11:2178(K).

Proposed Law

Purchase of Permissive Service Credit

Under SB 17, the amount of permissive service credit that may be purchased will be increased from ***three*** years to ***five*** years.

Funding Deposit Account

If the rate set be the board of trustees for the prior year exceeds the rate calculated by the actuary for the current year, then the board of trustees may set the rate at either rate or at a rate that falls in between the two rates.

Under current law, the Funding Deposit Account may be used to pay for permanent benefit increases as authorized only under ***R.S. 11:2178(K).*** SB 17 provides that the Account may be used to pay for permanent benefit increases if authorized under ***R.S. 11:2178.*** In other words, if a permanent benefit increase is granted in the future under current law using any other section of R.S. 11:2178 other than Subsection K, then the Funding Deposit Account may not be used to pay for such benefit increase. Under proposed law, funds in the Funding Deposit Account may be used to pay for any future permanent benefit increase as long as the enabling legislation is contained within R.S. 11:2178.

Implications of the Proposed Changes

SB 17 changes the amount of permissive service credit that a member of SPRF may purchase at the time of retirement from three years to five years.

SB 17 also authorizes the SPRF board of trustees to set the employer contribution rate at any point between the previous year's rate and the decreased rate that would otherwise be required.

SB 17 provides that any future enabling legislation granting a permanent benefit increase may use funds in the Funding Deposit Account as long as the enabling language is placed within R.S. 11:2178 rather than just R.S. 11:2178(K).

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

SB 17 increases the amount of permissive service credit that may be purchased from three to five years. Adverse selection may result from this provision of SB 17. Although, the member making such a purchase is required to pay the additional actuarial cost, the benefit purchase is not subject to underwriting. A person making such a decision may know more about his own individual health or other circumstances to make the purchase of two additional years of service more valuable to the member than the amount calculated as the actuarial equivalent cost by the retirement system.

SB 17 will allow the SPRF board of trustees to select from a range of employer contribution rates. Under current law, the board has only two choices – the rate calculated by the actuary or the rate approved by the board for the prior year if it is larger. There are no actuarial costs or savings associated with this portion of SB 17.

SB 17 allows funds in the Funding Deposit Account to be used for permanent benefit increases that are granted under subsections of R.S. 11:2178 other than R.S.11:2178(K). Currently there are no sections of R.S. 2178 other that Subsection K that can authorize a permanent benefit increase in the future. Therefore, this portion of SB 17 has no actuarial cost.

Other Post-Employment Benefits

There are no actuarial costs associated with SB 17 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 17 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. If the member purchases additional service credit under SB 17, benefit payments to that member from SPRF (Agy Self Generated) will increase relative to the additional two years of service credit allowed.

2. Expenditures from Local Funds will increase to the extent that SB 17 leads to adverse selection and larger employer contribution requirements relative to the purchase of permissive service credits.

3. Expenditures from Local Funds may increase or decrease depending on choices that would have been by the board of trustees without regard to SB 17. If the board would have selected the prior year rate without SB 17 but instead selects a rate in between the actuarial rate and the prior year rate, local fund expenditures will be reduced. If the board would have selected the actuarial rate without SB 17 but instead selects a rate between the actuarial rate and the prior year rate, local fund expenditures will increase. Because there is as much chance of a higher rate as there is a lower rate, fiscal costs or savings are expected to offset one another.

Revenues:

- The cost for the additional service credit is paid in a lump sum to SPRF at the time service credit is purchased. SPRF revenues (Agy Self-Generated) will increase for each member that purchases service credit under SB 17.

- Revenues for SPRF (Agy Self-Generated) will increase to the extent that the employer contribution rate must be increased to accommodate anti-selection.

The sum of all increases in fiscal costs during the three fiscal years immediately following the 2015 session is expected to be less than $100,000.

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 adopted by PRSAC.

Actuarial Caveat

There is nothing in SB 17 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the actuary 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 Fiscal Cost ≥ $100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ $500,000	☐ 6.8(F)(2): Annual Revenue Reduction ≥ $100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ $500,000