2016 REGULAR SESSION
ACTUARIAL NOTE HB 40

House Bill 40 HLS 16RS-298 **Original** **Author: Representative H. Eugene Reynolds** **Date: March 23, 2016** **LLA Note HB 40.01** **Organizations Affected:** **Municipal Employees' Retirement System** **OR 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 40 provides compliance with the requirements of R.S. 24:521** Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services

Bill Header: RETIREMENT/MUNICIPAL EMP: Provides relative to the reemployment of retirees in the Municipal 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	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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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

Under current law, a rehired retiree of the Municipal Employees' Retirement System (MERS) will receive a reduction in his pension benefit if the sum of his pension benefit and his reemployment earnings exceeds his final average compensation. Regardless of whether or not his pension is reduced, his re-employment makes the member ineligible to be a member of MERS who is contributing and earning benefits.

Proposed Law

Under HB 40, such a rehired retiree will continue to have his benefits reduced as under current law. However, he will be considered to be a contributing member of MERS and the following rules apply.

1. The rehired retiree will contribute to MERS.

2. The rehired retiree's employer will contribute to MERS.

3. The member will not receive any additional service credit nor will he accrued any additional benefits.

4. Upon termination of his re-employment, the member will receive a refund of his employee contributions made during his period of re-employment without interest.

5. MEER will retain the employer contributions made during the rehired employee's period of re-employment.

Implications of the Proposed Changes

HB 40 provides additional rules relative to the reemployment of retirees of MERS. In all likelihood, these rules will tend to discourage retirees from seeking re-employment in a position otherwise requiring participation in MERS.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

HB 40 contains benefit provisions having an actuarial cost. A rehired retiree of MERS will receive a termination benefit equal to a refund of his contribution under HB 40. Under current law, he would not have been entitled to any benefit upon termination of his re-employment. For the purpose of this determination, it is immaterial that the termination benefit is entirely funded by the employee.

Retirement Systems

HB 40 has the following effect on actuarial costs.

1. The present value of future benefit payments will increase because a rehired employee will receive a refund of his own contributions.

2. The present value of future benefit payments will increase because fewer retirees will seek re-employment. As a result, fewer benefits will become subject to a suspension of benefits.

3. The present value of future employer contributions will increase because such contributions will be retained by MERS.

4. Employee contributions will increase because rehired retirees will be required to contribute to MERS.

5. Employer contributions to MERS will increase because the employers of rehired retirees will be required to contribute to MERS. Employer contributions to MERS will decrease because MERS will retain all investment earnings on employee contributions. Contribution increases are likely to be larger than contribution decreases.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 40 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 40 will have the following effects on fiscal costs during the five-year fiscal measurement period.

Expenditures:

1. Expenditures from Local Funds will increase to the extent that employer contributions will increase when a retiree is employed. Such employer contributions will be retained by MERS leading to a reduction in employer contribution requirements. The net effect should be an increase in Local Fund expenditures.

2. If the retiree's employment period ends within the five-year fiscal measurement period, expenditures from the MERS (Agy Self-Generated) will increase to the extent accumulated employee contributions without interest are refunded.

3. Fewer benefits will be suspended in the future because fewer members will be willing to return to employment. Therefore, more benefits will be paid from MERS and expenditures for MERS (Agy Self-Generated) will increase.

Revenues:

- Revenues to MERS (Agy Self-Generated) will increase to the extent that employee and the employer contributions will increase when a retiree is employed.

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. 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 40 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 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