


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 24**

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| <p>House Bill 24 HLS 16RS-183 Engrossed</p> <p>Author: Representative Jack Montoucet</p> <p>Date: March 28, 2016</p> <p>LLA Note HB 24.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG DECREASE 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 24 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: Provides that a member of the Firefighters' Retirement System is not eligible for disability retirement benefits if his disability is indirectly a result of a preexisting condition.

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 | 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 to: | <u>Change in the Actuarial Present Value</u> |
|---|---|
| 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 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 | 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 | Decrease | Decrease | Decrease | Decrease | Decrease |
| Annual Total | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

| 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 | 0 | 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 |

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Bill Information:

Current Law

Under current law, a member of Firefighters' Retirement System (FRS) is entitled to receive a disability retirement if:

1. An active contributing member in active service with less than 5 years of service is disabled and the injury occurred in the performance of his official duties, or an active contributing member in active service with at least five years of service is disabled and the injury occurred within or not within the line of duty,
2. Such a member is officially certified as disabled by the State Medical Board, and
3. His injury must have been incurred after commencement of service and was not the result of a pre-existing condition.

Proposed Law

HB 24 provides additional guidance regarding pre-existing conditions.

1. No member is eligible for a disability benefit if his disability is a direct or indirect result of a condition that existed prior to his employment.
2. If a member's disability occurs because his service exacerbates an injury sustained prior to his employment as a firefighter, such injury will be considered to be an injury resulting from a pre-existing condition and the member will not be entitled to disability benefits.
3. The board of trustees will consider medical and other factual information to assess whether the injury was the result of a pre-existing condition. However, the board of trustees will not presume that fitness upon employment by medical examination is equivalent to the absence of a pre-existing condition.

Implications of the Proposed Changes

As a result of HB 24 it will be more difficult to satisfy the eligibility requirements for a disability benefit.

Cost Analysis:

HB 24 does not contain any benefit provisions having an actuarial cost.

Analysis of Actuarial Costs

Current law already contains language that disqualifies a member from a disability benefit the injury was the result of a pre-existing condition. HB 24 makes it more difficult for a member to avoid such disqualification. Fewer members will be entitled to disability benefit in the future because more will be disqualified due to pre-existing conditions. As a result, the actuarial present value of future benefits will decrease.

Other Post-Employment Benefits

The actuarial cost associated with HB 24 for post-retirement benefits other than pensions will decrease to the extent that participating employer of FRS has a post-retirement benefit program fully or partially paid by the employer.

Analysis of Fiscal Costs

HB 24 will have the following effect on fiscal costs during the five-year measurement period.

Expenditures:

1. Benefit payable from FRS (Agy Self-Generated) will decrease because fewer members will become eligible for disability benefits.
2. Expenditures from Local Funds will decrease because employer contribution requirements will decrease.

Revenues:

- FRS Revenues (Agy Self-Generated) will decrease because employer contribution requirements will decrease.

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.

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Actuarial Caveat

There is nothing in HB 24 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 Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000