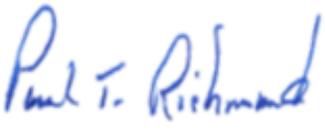


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 904**

<p>House Bill 904 HLS 16RS-302 Original</p> <p>Author: Representative Robert Billiot Date: April 11, 2016</p> <p>LLA Note HB 904.01</p> <p>Organizations Affected: Municipal 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 904 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/MUNICIPAL EMP: Provides an exception to the earnings limitation applicable to a reemployed retiree of 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.

<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

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	0	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	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, pension benefits payable from the Municipal Employees' Retirement System (MERS) are suspended if the sum of the retiree's reemployment income and his pension benefit exceeds the retiree's final average compensation as adjusted by the Consumer Price Index.

During such reemployment, the retiree is not a contributing member of MERS. The employer does not contribute to MERS based on the reemployment income. The member does not earn any additional benefits during such reemployment.

Proposed Law

Under HB 904, a retiree who is a certified operator of a water supply or sewerage system will be exempt from the suspension of benefit rules that pertain under current law. Such a retiree will be allowed to receive his pension in addition to his salary while reemployed as a certified operator of a water supply or sewerage system. However, neither he nor his employer will contribute to MERS, nor will he earn any additional benefits. Such a retiree will be allowed to collect both a salary and pension for a total period (not necessary contiguous) of three years.

Implications of the Proposed Changes

Water supply and sewerage systems contend that there is a critical shortage of certified operators. HB 904 is intended to increase the supply of certified operators available for employment.

Cost Analysis:

Analysis of Actuarial Costs

HB 904 contains benefit provisions having an actuarial cost. Specified retirees will be able to receive benefits under HB 904 that they would not have been able to receive under current law.

Retirement Systems

HB 904 will have two effects on actuarial costs associated with MERS:

1. If HB 904 is enacted, it is likely that a certified operator of a water supply or sewerage system will retire up to three years earlier than he would have otherwise. The ability to receive two checks, one for employment and the other for pension benefits, for a period of three year is a substantial inducement to retire early. As a result, MERS will be paying retirement benefits for more years than it would under current law.
2. As a general rule, retired certified operators are unwilling to return to work because if they do, a significant portion of their pension benefit will be suspended. If HB 904 is enacted, the suspension would not occur. As a result, MERS will be paying benefits under HB 904 that it is not paying now under current law.

Other Post-Employment Benefits

HB 904 will increase the actuarial cost associated with post-employment benefits other than pension to the extent that the employers of certified operators provide such benefits.

Analysis of Fiscal Costs

HB 904 will have the following effects on fiscal costs during the five-year fiscal measurement period.

Expenditures:

1. MERS expenditures (Agy Self-Generated) will increase to the extent certified operators retire earlier than expected and receive full retirement benefits for a longer period.
2. MERS expenditures (Agy Self-Generated) will increase because retirement benefits payable to retired certified operators will increase. Under current law, benefits payable to a reemployed certified operator is subject to suspension. Under HB 904, benefits will not be subject to suspension.
3. Expenditures from Local Funds will increase to the extent that employer contribution requirements will increase to pay for the additional benefits provided.

Revenues:

- MERS revenues (Agy Self-Generated) will increase to the extent that employer contribution requirements increase.

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,

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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 904 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