


**2016 REGULAR SESSION
ACTUARIAL NOTE HB 45**

<p>House Bill 45 HLS 16RS-162 Original</p> <p>Author: Representative Barry Ivey Date: April 19, 2016</p> <p>LLA Note HB 45.01</p> <p>Organizations Affected: State Retirement Systems</p> <p>OR NO IMPACT 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 45 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 BENEFITS: (Constitutional Amendment) Removes the guarantee of retirement benefits for state employees in certain circumstances.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation 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	\$0
Total Five Year Fiscal Cost	
Expenditures	\$0
Revenues	\$0

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	\$0
Other Post Retirement Benefits	\$0
Total	\$0

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	0	0	0	0	0	0
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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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	0	0	0	0	0
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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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Bill Information:

Current Law

The constitution of the state of Louisiana authorizes the legislature to establish retirement systems for teachers and other employees of K-12 school districts, state employees, and state police. It further states that membership in such a retirement system is a contractual relationship between the employee and employer, and the state shall guarantee benefits payable to a member, a retiree, or a member's beneficiary upon his death.

Current law prohibits the accrued benefit of any members of a state retirement system from being diminished or impaired. It is contended that the constitutional prohibition applies not only to accrued benefits but to future benefit accruals as well.

Proposed Law

HB 45 will amend the Louisiana constitution to give the legislature more flexibility in establishing pension benefits under the state retirement systems. If the constitution is amended as proposed under HB 45, the only benefit that is guaranteed, or that cannot be diminished, will be benefit promises that have been annuitized. A benefit is annuitized when it enters into pay status. It also can be argued that a benefit is annuitized when a person terminates employment with a promise of a specified future income when he reaches retirement age.

In preparing this actuarial note, we have assumed that accrued benefits for active members have not yet been annuitized and may therefore be reduced. Furthermore, future benefit accruals may also be changed to provide a smaller benefit at retirement.

Implications of the Proposed Changes

HB 45 is legislation that will enable the citizens of Louisiana to give the legislature more flexibility in designing and modifying pension benefits payable and guaranteed by the state.

Cost Analysis:

Analysis of Actuarial Costs

HB 45 does not contain any provisions having an actuarial cost.

Retirement Systems

There are no actuarial costs associated with HB 45. The bill does not by itself change any benefits earned in the past or to be earned in the future. It is merely give the legislature the ability to take such action should it wish to do so.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 45 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 45 will have no effect on fiscal costs during the five-year measurement period.

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 45 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