2019 REGULAR SESSION
ACTUARIAL NOTE SB 16

Senate Bill 16 SLS 19RS-24
Original

Author: Senator Long
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LLA Note SB 16. 01

Organizations Affected:
Louisiana State Police Retirement System
Municipal Police Employees' Retirement System

OR NO IMPACT APV

This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.

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Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor

Bill Header: RETIREMENT BENEFITS. Provides relative to investment of lump-sum benefits. (6/30/19)

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. Net fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "Decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***net actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		$0
Other Post-employment Benefits (OPEB)		0
Total		$0
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	$0	$0
Other Post-employment Benefits	0	0
Other Government Entities	0	0
Total	$0	$0

Bill Information

Current Law

Current law provides for a Back-Deferred Retirement Option Program (Back-DROP) for the members of the Louisiana State Police Retirement System (LSPRS).

1. An eligible participant in the Back-DROP receives his retirement benefit based on age, service, final average compensation, and plan provisions established retroactively to the first date of his Back-DROP period.

2. In addition to monthly benefits, such a member receives a lump sum payment for the period since the first date of his Back-DROP period. The Back-DROP lump sum is paid to the member at retirement or placed in an individual account in liquid asset money market investments and credited with interest at the actual rate of return earned on the investments.

For the Municipal Police Employees' Retirement System (MPERS), current law provides for the following:

1. It provides for a Deferred Retirement Option Plan (DROP). A member who has attained eligibility for an unreduced retirement benefit can continue working, freeze his accruals, and accumulate a lump sum of up to 36 months of the maximum benefit calculated using the frozen accruals. During the DROP period, the member's account balance is credited with investment earnings of one-half percent below the rate of return of the system's investment portfolio. At retirement current law allows the member to leave his DROP account with the system. It is placed in liquid asset money market investments, and credited with interest at the actual rate of return earned on the investments less one-fourth of one percent per year.

2. Alternatively, it allows a member who has not participated in the DROP, to receive the actuarial equivalent of his maximum benefit at retirement as a lump sum plus a reduced monthly payment. This option is called the "Initial Benefit

Option" (IBO). Present law allows the member to leave his IBO lump-sum account with the system and have it placed in liquid asset money market investments. The member's account balance is credited with interest at the actual rate of return earned on the investments less one-fourth of one percent per year.

3. The board of trustees is also authorized to contract with a third-party provider to administer a self-directed investment program for the post-termination DROP accounts and the IBO lump-sum accounts. Members electing the self-directed investment program must also agree to certain waivers of liability.

Proposed Law

For LSPRS, SB 16 authorizes the board of trustees to enter into a contract with a third-party provider to provide self-directed investment accounts for Back-DROP lump sums. The member will be authorized to transfer his Back-DROP lump sum to a self-directed account managed by the third-party provider. The third-party provider will be required to have as an investment option a stable value fund that will preserve the member's principal.

For MPERS, SB 16 provides for the transfer of DROP and IBO accounts of individuals who have left the system, to a self-directed program with a third party provider. All existing money market accounts will be transferred to the stable value fund of the third party provider as soon as practicable after June 30, 2019. In addition, all future accounts will be transferred to the stable value fund of the third party provider. After his account has been transferred to the stable value fund of the third party provider, the individual may elect to participate in the self-directed portion of the program.

For MPERS, SB 16 also provides for compliance with the Internal Revenue Code regarding the distribution of DROP account funds after the death of the participant.

In addition, for both systems, SB 16 provides waivers of liability that a self-directed plan or program participant agrees to when he elects to participate in such a plan or program. These waivers include the following:

1. That benefits payable from the self-directed account are not the obligations of the state or the system.

2. That the participant and the selected third-party provider bear all liability and responsibility for returns and other rights under the account.

3. That the participant waives his constitutional guarantees of payment and protections against diminished or impaired benefits.

4. That the participant and the third-party provider bear all responsibility for complying with applicable IRS provisions and regulations.

5. That the state and the system and all agents of the state and the system are not liable for choices the participant makes as to his investments.

Implications of the Proposed Changes

SB 16 authorizes LSPRS and MPERS to contract with a third party provider to provide self-directed investment accounts for individuals who have left Back-DROP accounts, DROP accounts, and IBO lump sums with their respective systems after retiring.

SB 16 also adds language required by the Internal Revenue Service for DROP account funds after the death of a participant in MPERS.

This change benefits the retired members by providing investment options. It also moves more of the responsibility for retirees' accounts to the retirees, and away from the boards, systems, and state.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be $0. The actuary's analysis is summarized below.

The board of trustees of LSPRS and MPERS will contract with a third-party provider to provide a stable value fund and self-directed investment accounts for back-DROP, DROP and IBO lump sum accounts. This will not affect the benefits obligations paid to the retirees by the system and there are no actuarial benefit costs for the retirement systems.

Also, the addition of language required by the Internal Revenue Service for DROP account funds after the death of a participant in MPERS does not change the benefits in any way.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be $0. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees is not affected by contracting with a third-party provider to provide self-directed investment accounts for lump-sums.

Also, the liability for post-retirement medical insurance protection provided to retirees is not affected by the addition of language required by the Internal Revenue Service for DROP account funds after the death of a participant in MPERS.

B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)

A detailed review of the actuarial data, methods or assumptions applicable to these retirement systems was not made or required for the preparation of this Actuarial Note.

C. Actuarial Caveat
(Prepared by LLA)

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

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of SB 16 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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

The proposed legislation would have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

B. <u>Estimated Fiscal Impact – OPEB</u>
(Prepared by LLA)

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

OPEB Fiscal Cost: Table B

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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

The proposed legislation would have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

No measurable effects.

3. Revenues:

No measurable effects.

C. <u>Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)</u>
(Prepared by Tanesha Morgan, Legislative Fiscal Office, and Bradley Cryer, Director of Local Government Services, LLA)

1. Narrative

Proposed law authorizes the State Police Retirement System (STPOL) board of trustees to contract with a third-party provider to provide self-directed investment accounts for Back-DROP assets and authorizes members to transfer Back-DROP assets to a self-directed account. Proposed law also provides for the transfer of Municipal Police Employees' Retirement System (MPERS) DROP and IBO assets to a self-directed program.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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

The proposed legislation would have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

There is no anticipated direct material effect on governmental expenditures as a result of this measure. This bill authorizes STPOL to contract with a third-party to provide self-directed investment accounts for Back-DROP assets and authorizes STPOL retirees to transfer Back-DROP assets to a self-directed account. Currently, it is the existing practice of STPOL to contract with a third-party to provide self-directed investment accounts for Back-DROP assets and for STPOL retirees to transfer Back-DROP assets to a self-directed account. This bill does not change the terms of the existing contract.

This bill also provides for the transfer of MPERS DROP and IBO assets to a self-directed program. There is no anticipated cost to MPERS as a result of this provision. However, information provided by MPERS indicates that retirees that transfer their DROP and IBO assets to a self-directed program will likely incur investment fees from the third-party provider.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of the proposed legislation on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, table B, and Table C. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	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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Credentials of the Signatory Staff:

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51. Risk disclosures otherwise required by ASOP No. 51 do not apply to this Actuarial Note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

☐ SB 16 contains a retirement system benefit provision having an actuarial cost.

No member of LSPRS or MPERS will receive a larger benefit with the enactment of SB 16 than what he would have received without SB 16.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2019 regular session.

Senate			House		
☐	13.5.1	Applies to Senate or House Instruments. If an annual fiscal cost ≥ $100,000, then bill is dual referred to: **Dual Referral: Senate Finance**	☐	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to: **Dual Referral to Appropriations**
☐	13.5.2	Applies to Senate or House Instruments. If an annual tax or fee change ≥ $500,000, then the bill is dual referred to: **Dual Referral: Revenue and Fiscal Affairs**	☐	6.8G	Applies to Senate Instruments only. If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**