2017 REGULAR SESSION
ACTUARIAL NOTE HB 683

House Bill 683 HLS 17RS-2073 **Reengrossed with House Floor Amendment #2729** **Author: Representative Sam Jones** **Date: May 25, 2017** **LLA Note HB 683.02** **Organizations Affected:** **Municipal Employees' Retirement System of Louisiana** **RE INCREASE 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.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/MUNICIPAL EMP: Provides relative to the reemployment of retirees of the Municipal Employees' Retirement System of La.

Cost Summary:

The estimated actuarial and fiscal impact of HB 683 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the ***actuarial present value of future benefit payments***. 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 ***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.

Actuarial Costs Pertaining to:		**Actuarial Cost**
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB		0
Other Government Entities		0
Total		Increase
	Fiscal Costs	
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Decrease	Increase
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	Decrease	Increase

Bill Information

Current Law

Provisions of current law associated with retirees of the Municipal Employees' Retirement System (MERS) reemployed after retirement are summarized below in Table IA. Current law applies to all reemployed retirees. Corresponding provisions of HB 683 are also summarized in Table IA.

Proposed Law

Provisions of current law associated with retirees of MERS reemployed after retirement are summarized below in Table IA. HB 683 only affects retirees reemployed on a full-time basis. HB 683 has no effect on retirees reemployed on a part-time basis. Current law will continue to apply to retirees reemployed on a part-time basis. Corresponding provisions of current law and HB 683 are compared in Table IA.

Implications of the Proposed Changes

Provisions of law associated with retirees of MERS who become reemployed on a full-time basis will change significantly. Some retirees will favor these changes because HB 683 will give them an opportunity to earn a supplemental benefit. Others will oppose these changes because HB 683 will limit the benefit opportunities they now have under current law such as the ability to earn a salary from reemployment while at the same time continuing to collect pension benefits from MERS.

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I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to *actuarial present value costs or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

HB 683 is expected to produce an increase in actuarial present value costs for MERS. The increase is not measurable; the increase is expected to be small; but an increase in costs is likely to occur. Our analysis, summarized below, is based on the assumption that HB 683 will only affect retirees reemployed on a full time basis. Current law will continue to apply to part-time reemployed retirees.

The cost analysis associated with HB 683 depends on a variety of factors such as the number and characteristics of retirees who elect to become reemployed including the retiree's full or part-time reemployment status, the retiree's original monthly benefit, age, gender, beneficiary selection, reemployment age, and reemployment salary. Actuarial costs and cash flow changes due to HB 683 also depend on:

a. Estimated changes in actuarial and cash flow costs during reemployment, and
b. Estimated changes in actuarial and cash flow costs at termination of reemployment and for periods of time thereafter.

Analysis Associated with the Major Components of Cost.

If we eliminate the no cost/savings, negligible cost/savings, and small cost/savings items from our analysis in Table IA, enactment of HB 683 provides for the following major components of change. The major increases/decreases in actuarial and cash flow costs are highlighted in Table IA by the use of *italics.*

a. Suspension of Benefit Rules

Suspension of benefit rules under HB 683 are expected to produce a decrease in actuarial present value costs or an increase in actuarial present value savings.

HB 683 provides that retirement benefits for a retiree reemployed full-time will be suspended during reemployment. Current law provides for no suspension unless the income from reemployment plus the MERS pension benefit exceeds the retiree's original final average compensation (FAC) adjusted for the CPI. If this occurs, then the original benefit is reduced so that the sum is equal to the retiree's original CPI-adjusted FAC. The change in benefit suspension rules under HB 683 provides for savings for each retiree who is reemployed full-time. Although these savings are a significant component of the total cost or savings of HB 683, savings pertaining to the suspension of benefit rules are somewhat limited because the average period of reemployment (and benefit suspension) will be fairly short, perhaps 1 to 5 years.

b. Supplemental Benefits

HB 683 provides that a retiree reemployed full-time will accrue pension benefits based on his service and salary earned during his reemployment. No benefits are earned under current law. The increase in the actuarial present value cost associated with supplemental benefits is not immaterial because the lifetime supplemental benefit, although small, may be payable for 20 to 30 years.

Therefore, under HB 683, a larger benefit decrease applicable for only a few years (suspension of benefits provisions) is being compared with a smaller benefit increase that is deferred, but payable for many years into the future (supplemental benefit provisions). We expect that the net effect of this comparison will be a small increase in actuarial present value costs.

A more detailed analysis of all provisions of HB 683 on actuarial and cash flow costs is summarized below. Note: the comparison only pertains to retirees reemployed on a full-time basis.

Table IA

a. Changes in actuarial and cash flow costs during reemployment.

Current Law	HB 683	Effect on Costs
The employer will pay the reemployed retiree his full reemployment salary.	Same as current law.	No change.
The retiree will remain an inactive retired member of MERS.	The retiree will become an active member of MERS.	HB 683 merely changes the membership status of a reemployed retiree. This provision of HB 683, by itself, has no effect on actuarial present value or cash flow costs/savings. It establishes criteria that will affect actuarial present value costs/savings and cash flows.

Table IA (Continued)

a. Changes in actuarial and cash flow costs during reemployment (continued).

Current Law	**HB 683**	**Effect on Costs**
The retiree will contribute to MERS based on the salary he earns from his employer during his period of reemployment.	Same as current law.	No change.
MERS will not credit the reemployed retiree with any additional benefit credits relative to his service and salary while reemployed.	*MERS will allow the reemployed retiree to earn a supplemental benefit based on his service and salary during his reemployment as long as the retiree is reemployed for at least 12 months.*	*Actuarial present value costs will increase to account for the supplemental benefit that MERS will provide. Cash flow costs will also increase.* *The increase in the actuarial present value cost will be paid for by an increase in employer contributions for all employees and employers participating in MERS.* *This is a major component of the total cost/savings associated with HB 683.*
The employer of the reemployed retiree will contribute to MERS.	Same as current law.	No change.
The retiree will continue to receive his monthly benefit from MERS. *However, if the retiree's total monthly income from MERS and from reemployment exceeds the retiree's CPI-adjusted final average compensation (FAC), then his MERS benefit will be reduced during his period of reemployment so that his total monthly income is equal to his CPI-adjusted FAC.*	*The retiree's entire benefit will be suspended. The reemployed retiree will forfeit all rights to monthly benefits otherwise payable to the retiree by MERS during his period of reemployment.*	*A decrease in actuarial present value cost will occur to account for:* • *The elimination of current law provisions.* *An increase in the actuarial present value cost will occur to account for:* • *The adoption of HB 683 provisions.* *This is a major component of the cost/savings associated with HB 683.*

b. Changes in actuarial and cash flow costs at termination of reemployment and thereafter.

Current Law	**HB 683**	**Effect on Costs**
MERS will refund the retiree's contributions. MERS will retain the interest on these contributions.	MERS will retain the retiree's contributions MERS will retain the interest on these contributions.	HB 683 will result in a decrease in the actuarial present value of future normal costs. The decrease is expected to be small.
MERS will retain contributions made by the retiree's employer with interest earned.	Same as current law.	No change.

Table IA (Continued)

b. Changes in actuarial and cash flow costs at termination of reemployment and thereafter (continued).

Current Law	**HB 683**	**Effect on Costs**
MERS will restore the retiree's benefit to the amount it was immediately before the time when the retiree's total income was first limited by the CPI-adjusted FAC.	*The retiree will receive a benefit from MERS equal to the benefit he had been receiving before becoming reemployed.* *He will also receive a supplemental benefit from MERS equal to the benefit he accrued during his period of reemployment based solely on service and salary earned from his employer during his period of reemployment.* *The total benefit may not exceed 100% x FAC.*	*The actuarial present value cost associated with HB 683 is expected to increase.* *This is a major component of the cost/savings associated with HB 683.*
The benefit option the member had selected on his original retirement date may not be changed.	Same as current law.	No change.

All increases and decreases in actuarial present value costs (including the major components of the total actuarial cost) are small in value because the number of retirees seeking to become reemployed is small under current law and is anticipated to be small under HB 683.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 683 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers generally remains the same regardless of the amount of retirement benefits paid by MERS to a retiree.

3. Other Government Entities

The actuarial cost of HB 683 associated with government entities other than those identified in HB 683, is estimated to be $0. Our analysis is summarized in Section II; Subsection C.

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

Unless indicated otherwise, the actuarial note for HB 683 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The 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.

C. Actuarial Caveat
(Prepared by LLA)

There is nothing in HB 683 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 costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 683 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.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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	Increase	Increase	Increase	Increase	Increase
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

The effect that HB 683 will have on retirement related fiscal costs and revenues during the five year measurement period is shown in Table A and in Items 2 and 3 below.

2. Expenditures:

   a. MERS expenditures (Agy Self-Generated) for monthly benefit payments will decrease for all reemployed retirees reemployed on a full-time basis.

   b. Expenditures of government entities (Local Funds) that sponsor MERS will increase to the extent the employer contribution rate increases to offset the actuarial present value cost of HB 683.

   c. The net effect on expenditures will be a decrease for each year in the fiscal measurement period.

3. Revenues:

   a. MERS revenues (Agy Self-Generated) will increase to the extent that employee contributions will increase relative to reemployed retirees. Furthermore, employer contribution rates will increase relative to reemployed retirees.

   b. MERS revenues will increase to the extent that the employer contribution rate for all participating employer will increase to provide for supplemental benefits.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 683 on costs associated with OPEB and the government entities that sponsor these benefits. Fiscal costs in Table B include administrative costs associated with the government entity sponsoring the OPEB program. 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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

C. <u>Estimated Fiscal Impact − Other Government Entities (unrelated to the retirement systems or OPEB)</u>
(Prepared by Mike Battle, Audit Manager for the LLA)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of HB 683 on such government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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 effect that HB 683 will have on fiscal costs and revenues for other government entities during the five year measurement period is shown in Table C and in Items 2 and 3 below.

2. Expenditures:

There is no anticipated indirect material effect on the expenditures of individual municipalities as a result of this measure. The bill provides that if a retired member receiving normal retirement benefits returns to work, his retirement benefit shall be suspended, and the retired member shall become a member of the system and accrue a supplemental benefit. Based on information from the Municipal Employees’ Retirement System, there would be no indirect fiscal impact on individual municipalities as a result of this bill. A Louisiana Municipal Association representative also indicated that this measure would result in no indirect material fiscal impact to the individual municipalities.

3. Revenues:

There is no anticipated indirect material effect on the revenues of individual municipalities as a result of this measure. The bill provides that if a retired member receiving normal retirement benefits returns to work, his retirement benefit shall be suspended, and the retired member shall become a member of the system and accrue a supplemental benefit and, therefore, this bill will have no fiscal impact on revenues of municipalities.

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 HB 683 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	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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	Increase	Increase	Increase	Increase	Increase
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

<u>Credentials of the Signatory Staff:</u>

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.

Mike Battle, Audit Manager for the Louisiana Legislative Auditor has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

<u>Information Pertaining to Article (10)(29(F) of the Louisiana Constitution</u>

[X] HB 683 contains a retirement system benefit provision having an actuarial cost.

Some reemployed retirees will receive a benefit under HB 683 that is greater than what he would have without HB 683.

<u>Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:</u>

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

<u>Senate</u>

[ ] 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

[ ] 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

<u>House</u>

[ ] 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

[ ] 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