


**2020 REGULAR SESSION  
ACTUARIAL NOTE HB 21**

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| <p>House Bill 21 HLS 20RS-117<br/>Enrolled</p> <p>Author: Representative Bacala<br/>Date: May 29, 2020<br/>LLA Note HB 21.04</p> <p>Organizations Affected:<br/>Municipal Police Employees'<br/>Retirement System</p> <p>EN INCREASE APV</p> | <p>This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.</p> <p style="text-align: center;"></p> <p>Lowell P. Good, ASA, EA, MAAA<br/>Actuarial Services Manager</p> |
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**Bill Header:** RETIREMENT/MUNICIPAL POL: Provides relative to membership and benefits of the Municipal Police Employees' Retirement System.

**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 local and state 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).

| <b>Net Actuarial Costs (Liabilities) Pertaining to:</b> |                     | <b>Net Actuarial Cost</b> |
|---|---------------------|---------------------------|
| The Retirement Systems                                  |                     | Increase                  |
| Other Post-employment Benefits (OPEB)                   |                     | 0                         |
| Total   |                     | Increase                  |
|   |                     |                           |
| <b>Five Year Net Fiscal Cost Pertaining to:</b>         | <b>Expenditures</b> | <b>Revenues</b>           |
| The Retirement Systems                                  | Increase            | Increase                  |
| Other Post-employment Benefits (OPEB)                   | 0                   | 0                         |
| Local Government Entities                               | Increase            | 0                         |
| State Government Entities                               | 0                   | 0                         |
| Total   | Increase            | Increase                  |

**Bill Information**

**Current Law**

The current laws for the provisions affected by HB 21 include:

1. Current law provides that an elected police chief is a member of the Municipal Police Employees' Retirement System (MPERS) if his salary is at least \$100 per month.
2. Current law defines employer as a municipality that employs a full-time police officer at a salary of at least \$100 per month.
3. Current law provides that a person who is 50 years old or older does not become a member in MPERS upon employment.
4. Current law requires an employee to receive a physical examination before he becomes a member. Current law requires submission of the examination and waivers of preexisting conditions to MPERS within six months after employment. A member who does not timely submit these documents is a member for purposes of receiving regular benefits but is not eligible for disability benefits until the documents are submitted.
5. Current law provides that a person ceases to be a member of MPERS if he is absent from service for more than five years and is not entitled to a deferred annuity as provided for by the current law.
6. Current law provides for payment of retirement benefits to a surviving spouse. These benefits cease if the spouse remarries before age 60.

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7. Current law provides for survivor benefits for a member who has at least 10 years of service credit.

**Proposed Law**

The provisions under HB 21 corresponding to the above current laws are:

1. HB 21 provides that an elected police chief is a member of MPERS if his salary is at least \$1,000 per month.
2. HB 21 defines employer as a municipality that employs a full-time police officer or has an elected chief of police whose salary is at least \$1,000 per month.
3. HB 21 removes the age restriction for persons hired on or after July 1, 2021.
4. HB 21 provides that a person hired after June 30, 2021, who has not timely submitted the documents is a member eligible to begin vesting for regular benefits but is not eligible to begin vesting for disability benefits for an injury not incurred in the line of duty until the documentation is received. In addition, HB 21 requires completion of a new physical examination if the employee has a break in service longer than one year. If a physical examination is not completed because the employer refused to pay for the physical examination, the employer is liable for any disability benefit to which the member would be entitled.
5. HB 21 provides that a person does not cease to be a member of the system if (i) he is absent from service for more than five years on or before June 30, 2021, and (ii) is not entitled to a deferred annuity as provided for by the current law.
6. HB 21 provides that benefits payable to the surviving spouse cease if the spouse remarries before age 55. It also requires a surviving spouse under the age of 55 who receives survivor benefits to submit to the board of trustees, by October 1st of every year beginning with the second October 1st following the member's death, or October 1, 2021, whichever is later, a notarized statement attesting his marital status throughout the prior fiscal year. If the statement is not submitted in time, the benefit will be discontinued without retroactive reimbursement, until the statement is submitted. If the spouse does not submit the statement for the remainder of the calendar year, the board of trustees may revoke his rights to survivor benefits.
7. HB 21 provides that if a member is killed in the line of duty, the requirement to have at least 10 years of service in MPERS will not be applied.

The following provisions are also contained in HB 21:

- a. HB 21 defines "full-time" as meaning an employment on a permanent, regularly scheduled basis for at least an average of thirty hours per week, and requires an elected chief of police to be full-time in order to be considered an employee.
- b. HB 21 provides that a member who retires after June 30, 2021, and who is employed on a full-time basis by a police department of any municipality in Louisiana is an employee of MPERS.
- c. HB 21 provides for the payment of survivors benefits to a special needs trust created for a disabled child.
- d. HB 21 provides that if survivor benefits are being paid on behalf of a deceased member at the time a survivor applies for benefits, that survivor's benefits will become effective and payable on the first day of the next month following sixty days from the date that MPERS receives the survivor's completed application for benefits.
- e. HB 21 requires the claims for the survivor benefits to be filed with MPERS by the later of June 30, 2023, or 3 years from the date of death of the member.
- f. HB 21 provides that the benefits of any retiree of MPERS who retires on or after July 1, 2021 and becomes employed by an employer but does not meet the definition of an employee within the twenty-four-month period immediately following the effective date of his retirement will be suspended for the duration of such employment or the lapse of twenty-four months from the effective date of retirement, whichever occurs first, even if such service is part-time, based on employment by contract, or in a non-qualifying position. HB 21 also provides that:
  1. The retiree and his employer will immediately notify the board of the retiree's date of employment. If failure to give notice of employment results in any payment being made in violation of this provision, the employer will be liable to MPERS for the repayment of such amounts.
  2. The employer will be charged interest at the legal rate which will be due from the date of the payment to the retiree.
  3. Any employer that fails to pay MPERS for overpayments under this provision within ninety days from the date that the benefit was paid will be liable for a penalty of 25% of each monthly retirement benefit payment that was not repaid in full with interest.
  4. The employer will also reimburse MPERS for any legal fees paid by MPERS in the collection of these amounts.
- g. HB 21 requires the board of trustees to use all reasonable means to collect the benefits paid by MPERS to an individual who was not due the benefit. The prescriptive period is three years from the date of payment, except in the case of fraud where the prescriptive period is thirty years from the date of payment. If MPERS pays a sum of money or benefits totaling at least \$5,000 to a retiree, beneficiary, or survivor that is not due them and the retiree, beneficiary, or survivor is entitled to future benefits, the board of trustees will adjust the amount payable to the correct amount and then actuarially reduce the corrected amount to account for the overpayments plus legal interest from the date of the overpayment. Unless the overpayment was due to the fault of MPERS, the retiree, beneficiary, or survivor's benefit will also be reduced to account for any cost incurred by MPERS to calculate the actuarial reduction.

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- h. HB 21 provides that any member who transferred service credit from another system, fund, or plan at an accrual rate that is lower than the accrual rate of the receiving system, may elect to upgrade the accrual rate of all or a portion of his transferred service credit by paying an amount calculated on an actuarial basis that totally offsets the increase in accrued liability of the receiving system resulting from the accrual rate upgrade.
- i. HB 21 provides as follows relative to disability retirements from MPERS:
  - 1. Requires that claims for disability benefits by a member disabled after June 30, 2021 be filed within three years from the date of disability.
  - 2. Requires MPERS to pay for any medical examination that it may require to determine continued eligibility for a disability retirement benefit.
- j. HB 21 provides that a member who is married under a community property regime will provide consent of his spouse or an affidavit of unknown location, before he can elect his retirement benefits.
- k. HB 21 clarifies how benefits are determined when a member has service in more than one subplan. The retirement benefits and eligibility for each portion of the benefit are based on the requirements of the subplan under which it was accrued.

**Implications of the Proposed Changes**

The provisions under HB 21 with cost implications are:

- 1. It is more likely there will be new covered employees hired who are age 50 and older.
- 2. It is more likely physical examinations and other documentation will be submitted in a timely manner to obtain coverage for disability benefits.
- 3. It is more likely a former employee will return after an absence of over five years and eventually be eligible for benefits.
- 4. It is more likely that survivor benefits will continue to be paid to survivors who remarry.
- 5. Survivors of members who die in the line of duty with fewer than 10 years of service will be eligible for retirement benefits.
- 6. Defining “full time” as an average of at least 30 hours a week will make part-time work less attractive to those who want to earn pension benefits.
- 7. Requiring a benefit suspension for some rehired retirees will reduce the incentive for members to retire early then return to work.
- 8. Requiring timely physical examinations and documentation should minimize payments for members who shouldn’t qualify for disability benefits.

The net effect of these changes would be an expected increase in actuarial liabilities and costs.

**I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]**

**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 an increase in cost. The actuary’s analysis is summarized below.

- a) HB 21 removes the age restriction for persons hired on or after July 1, 2021. A person who is hired and becomes a member at age fifty or later, will be eligible for retirement benefits after 10 to 12 years, depending on whether he is in the Hazardous Duty Subplan (12 years or more at age 55) or the Nonhazardous Duty Subplan (10 years or more at age 60). This provision of the proposed bill is not expected to increase the number of covered employees, but increase the average of new hires enrolling into the System. This makes the actuarial cost somewhat higher than for new members hired at a younger age.
- b) A person hired after June 30, 2021, who does not timely submit the required documents is not eligible to begin vesting for disability benefits until such documents are received. In addition, a new physical examination will be required if the employee has a break in service longer than one year. The employer will be liable for any disability benefit if a physical examination is not completed because the employer refused to pay for the physical examination. These restrictions on disability benefits have the potential to reduce actuarial liabilities, either by preventing coverage of a new employee who would not pass the physical, or by denying eligibility for disability benefits.
- c) The provision that a person ceases to be a member of MPERS if he is absent from service for more than five years and is not entitled to a deferred annuity as provided for by the current law will be removed after June 30, 2021. If such a person returns to service, his benefit will be larger and his retirement date earlier by including those earlier years of service. Keeping such members in MPERS increases the actuarial liability.

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- d) HB 21 moves the restriction on remarrying down from age 60 to age 55 for surviving spouses. Continuing to pay benefits to surviving spouses who remarry between the ages of 55 and 60 increases the actuarial liability. However, requiring an annual notarized statement attesting to marital status could reduce payments in some cases.
- e) The 10 years of service requirement for survivor benefits will not be applied when a member is killed in the line of duty. Paying survivor benefits when a member is killed in the line of duty before he has 10 years of service increases the actuarial liability.
- f) Pension benefits may be suspended for some rehired retirees. Requiring a benefit suspension will reduce the incentive for members to retire early then return to work. Overall removing the incentive to retire early should reduce the actuarial liability.
- g) Defining “full time” as an average of at least 30 hours a week, will limit anti-selection by part time elected chiefs of police and other members who could have part-time service early in their careers and move to full time service later with much higher compensation. This change will decrease the actuarial liability.
- h) Requiring timely physical examinations and documentation should minimize payments for members who shouldn’t qualify for disability benefits. This change should reduce the actuarial liability. Requiring the system to pay for exams increases cost, however reducing benefits to those no longer disabled should offset the cost.
- i) Limiting the number of years of overpayments that can be collected may reduce recoveries; however, recovering overpayments can be difficult and costly, so the impact is not clear.
- j) Requiring proof related to marital status with regard to community property can prevent being forced to overpay benefits by having to make payments to a second beneficiary.

**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 subsidies provided to retirees is not affected by any of the provisions contained in HB 21. Retiree medical insurance subsidies are adopted by the local employers and are not affected by the provisions of this proposed bill.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems’ Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

**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 IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]**

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

**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.

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**Retirement System Fiscal Cost: Table A**

| <b>EXPENDITURES</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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         | Increase       | Increase       | Increase       | Increase       | Increase       | Increase            |
| Annual Total        | Increase       | Increase       | Increase       | Increase       | Increase       | Increase            |

| <b>REVENUES</b>    | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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              | 0              | 0              | 0              | 0              | 0                   |
| Annual Total       | Increase       | Increase       | Increase       | Increase       | Increase       | Increase            |

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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

2. Expenditures:

- a. Expenditures by MPERS (Agy Self Generated) will likely increase, possibly beginning in 2020-21 if during that period more employees are expected to participate in MPERS and accrue benefits. Therefore, benefit payments for MPERS will likely be larger than they are currently, even when considering the likely reduction in the benefits paid for some of the rehired retirees of MPERS reemployed on or after July 1, 2021.
- b. Expenditures from the Local Funds will likely increase, possibly beginning in 2020-21 if during that period more contributions are made.

3. Revenues:

MPERS revenues (Agy Self-Generated) will likely increase, possibly beginning in 2020-21 if during that period more contributions are received.

**B. Estimated Fiscal Impact – OPEB  
(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**

| <b>EXPENDITURES</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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                |

| <b>REVENUES</b>    | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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                |

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

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The proposed legislation will 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.

**III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]**

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

**Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)**  
**(Prepared by Bradley Cryer, Director of Local Government Services)**

- 1. Narrative

From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

**Fiscal Costs for Local Government Entities: Table C**

| <b>EXPENDITURES</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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                |

| <b>REVENUES</b>    | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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 will have the following effects on fiscal costs and revenues related to local government entities during the five year measurement period.

- 2. Expenditures:  
The bill may have an impact on employee retention/hiring, along with related costs; however, such an impact cannot be accurately quantified.
- 3. Revenues:  
No measurable effects.

**IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]**

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

**Estimated Fiscal Impact – State Government Entities (other than the impact included in Tables A and B)**  
**(Prepared by John Carpenter, Legislative Fiscal Officer)**

- 1. Narrative

Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are

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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.

**Fiscal Costs for State Government Entities: Table D**

| <b>EXPENDITURES</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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                |

| <b>REVENUES</b>    | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> | <b>2023-24</b> | <b>2024-25</b> | <b>5 Year Total</b> |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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 will have the following effects on fiscal costs and revenues related to state government entities during the five year measurement period.

2. Expenditures:

N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

3. Revenues:

N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

**Credentials of the Signatory Staff:**

Lowell P. Good is 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of 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.

A full actuarial determination of the retirement system’s costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system’s contribution requirement and accrued liability are summarized in the system’s most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems’ Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund’s future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system’s funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan’s future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan’s funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;

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4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

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

HB 21 contains a retirement system benefit provision having an actuarial cost.

Some members of the Municipal Police Employees’ Retirement System could receive a larger benefit with the enactment of HB 21 than what they would have received without HB 21.

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

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 regular session.

| <u>Senate</u>  | <u>House</u>  |
|--|---|
| <input type="checkbox"/> 13.5.1 Applies to Senate or House Instruments.<br>If an annual fiscal cost $\geq$ \$100,000, then bill is dual referred to:<br><b>Dual Referral: Senate Finance</b>                       | <input type="checkbox"/> 6.8F Applies to Senate or House Instruments.<br>If an annual General Fund fiscal cost $\geq$ \$100,000, then the bill is dual referred to:<br><b>Dual Referral to Appropriations</b>                           |
| <input type="checkbox"/> 13.5.2 Applies to Senate or House Instruments.<br>If an annual tax or fee change $\geq$ \$500,000, then the bill is dual referred to:<br><b>Dual Referral: Revenue and Fiscal Affairs</b> | <input type="checkbox"/> 6.8G Applies to Senate Instruments only.<br>If a net fee decrease occurs or if an increase in annual fees and taxes $\geq$ \$500,000, then the bill is dual referred to:<br><b>Dual Referral: Ways and Mea</b> |