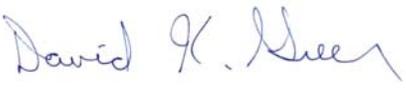


**2010 REGULAR SESSION
ACTUARIAL NOTE SB 62**

<p>Senate Bill 62 SLS 10RS-193 Engrossed with Senate Committee Amendments #1806</p> <p>Author: Senator A. G. Crowe Date: April 19, 2010</p> <p>LLA Note SB 62.02</p> <p>Organizations Affected: Municipal Employees' Retirement System (MERS)</p> <p>EG SEE ACT NOTE APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">  David K. Greer, CPA Assistant Legislative Auditor and Director of Performance Audit and Actuarial Services </div>
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Bill Header: RETIREMENT BENEFITS. Provides for a change of beneficiary under certain circumstances.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems, OGB and other Entities	Minimal Cost, See Actuarial Analysis Below
Total Five Year Fiscal Cost	
Expenditures	INCREASE, See Fiscal Analysis Below
Revenues	\$0

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana public retirement systems	\$0
Other Post Retirement Benefits	Minimal Cost, See Actuarial Analysis Below
Total	Minimal Cost, See Actuarial Analysis Below

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Note: it includes the cash flow effect of the benefit changes on the retirement systems, the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	INCREASE	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	2010-11	2011-12	2012-13	2013-14	2014-15	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

Bill Information:

Current Law

Under current law, a retiree of MERS cannot change his designation of beneficiary after retirement.

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Proposed Law

Under the proposed law, a retiree of MERS will be able to change his designated beneficiary if:

1. He was not married at the time of his retirement; or
2. After his retirement, he married someone other than the beneficiary he named at his original retirement and at least five years have elapsed since his marriage.

Although the retiree may change his beneficiary, he will not be permitted to change the optional form of benefit. In addition, a retiree satisfying the above conditions must elect to change beneficiaries on or before August 2, 2010.

Any cost associated with the change in beneficiary must be borne by the retiree. The retiree may pay for any additional cost by a reduction in benefit or by a suspension of monthly payments.

Implications of the Proposed Changes

There are about 4,000 MERS retirees. There may be several retirees who satisfy the conditions of SB 62 and therefore will be entitled to name a new beneficiary.

Cost Analysis

Analysis of Actuarial Costs

Retirement Systems

There is no actuarial cost to MERS as a result of SB 62. It is assumed that the benefit payable to the retiree and Beneficiary #2 will be reduced (or increased) to maintain actuarial equivalence with the benefit payable to the retiree and Beneficiary #1. The actuary for MERS would calculate actuarial equivalence in the following manner:

1. Determine the actuarial present value of the benefit payable to the retiree and potentially to Beneficiary #1.
2. This value, which is calculated at the time the change in beneficiary becomes effective, reflects the lump sum amount available to fund the benefit payable to the retiree under the same option but with Beneficiary #2.
3. Determine the benefit, equivalent to the lump sum amount determined in item 2 above, that could be paid to the retiree and Beneficiary #2 under the same option based on the ages of the retiree and Beneficiary #2 at the time of the beneficiary change.

Other Post Retirement Benefits

There is a potential cost associated with other post employment benefits. Additional actuarial costs will occur if:

1. The employer-paid post retirement medical benefits are provided to retirees and their beneficiaries,
2. The beneficiary re-designation is honored by the post retirement medical program, and
3. The age of Beneficiary #2 is less than the age of Beneficiary #1.

The actuarial cost determined above may, depending upon the funding arrangement, be increased or decreased by A – B with A and B defined below:

- A. The difference between the present value of health insurance benefits promised under the program and the present value of expected employee-paid health insurance premiums, with all calculations based on the retiree and Beneficiary #1.
- B. The difference between the present value of health insurance benefits promised under the program and the present value of expected employee-paid health insurance premiums, with all calculations based on the retiree and Beneficiary #2.

Analysis of Fiscal Costs

Unless the retiree pays for the actuarial calculation, there will be a fiscal cost to MERS. We assume MERS will pay the cost of the actuarial calculation, which we estimate to be about \$300 per calculation. It is not possible to estimate the number of individuals that will take advantage of the provisions of this bill. As a result, we can not calculate the fiscal cost to the system.

Dual Referral

Senate
 13.5.1 ≥ \$500,000 Annual Fiscal Cost

House
 6.8(F) ≥ \$500,000 Annual Fiscal Cost

13.5.2 ≥ \$500,000 Annual Tax or Fee Change

6.8(G) ≥ \$500,000 Tax or Fee Increase or a Net Fee Decrease