2012 REGULAR SESSION
ACTUARIAL NOTE SB 49

Senate Bill 49 SLS 12RS-144 **Engrossed with Senate Committee Amendment #3297** **Author: Senator Elbert L. Guillory** **Date: May 2, 2012** **LLA Note SB 49.02** **Organizations Affected:** **Municipal Employee Retirement System (MERS)** **EG -$3,162,000 FC LF EX**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: MUNICIPAL EMPLOYEE RET. Provides for a second tier of benefits for persons employed on or after 1/1/13. (7/1/12)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Decrease
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

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 administration or other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

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.

EXPENDITURES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-2017**	**5 Year Total**
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	(317,000)	(632,000)	(949,000)	(1,264,000)	(3,162,000)
Annual Total	$ 0	$ (317,000)	$ (632,000)	$ (949,000)	$ (1,264,000)	$ (3,162,000)

REVENUES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-2017**	**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	0	0	0	0	0
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Bill Information:

Current Law

Current law establishes the Municipal Employees' Retirement System (MERS) consisting of Plan A and Plan B.

Under current law, members of Plan A must attain the age and service amounts shown below in order to retire.

a. A member may retire at age 60 if he has 10 or more years of service.
b. A member may retire at any age if he has 25 or more years of service.
c. A member may retire at any age if he has 20 or more years of service, but benefit will be actuarially reduced.

Members of Plan B must attain the age and service amounts shown below in order to retire.

a. A member may retire at age 60 if he has 10 or more years of service.
b. A member may retire at any age if he has 30 or more years of service.

Under current law, an active member of Plan A contributes 9.25% of his salary to the retirement system. A member of Plan B contributes 5%.

Current law provides that members of MERS receive a monthly retirement benefit as a non-elected public servant based on the following formula:

Plan A: 3% x Final Compensation x Years of Service as a non-elected public servant

Plan B: 2% x Final Compensation x Years of Service as a non-elected public servant.

Current law also provides that members of MERS who have held elective office shall receive an additional monthly retirement benefit based on their years of service in elected office. The additional benefit is based on the following formula:

Plan A: 0.5% x Final Compensation x Years of Service as an elected public servant

Plan B: 0.5% x Final Compensation x Years of Service as an elected public servant.

Proposed Law

Proposed law creates a second tier of benefits in each plan of MERS for members who are first employed on or after January 1, 2013.

Under SB 49, members of Plan A Tier 2 must attain the age and service amounts shown below in order to retire.

a. A member may retire at age 67 if he has 7 or more years of service.
b. A member may retire at age 62 if he has 10 or more years of service
c. A member may retire at age 55 if he has 30 or more years of service.
d. A member may retire at any age if he has 25 or more years of service, but benefits will be actuarially reduced.

Members of Plan B Tier 2 must attain the age and service amounts shown below in order to retire.

a. A member may retire at age 67 if he has 7 or more years of service.
b. A member may retire at age 62 if he has 10 or more years of service.
c. A member may retire at age 55 if he has 30 or more years of service.

SB 49 will give the MERS board of trustees the authority to set the employee contribute rate each year. The board may set the rate for Plan A Tier 2 members between 8.00% and 10.00%. The board may set the rate for Plan B Tier 2 members between 4.00% and 6.00%.

Under SB 49, service for all members, elected public servants and non-elected public servants first employed on or after January 1, 2013, will be treated the same way for retirement benefit calculation purposes as if the service had been earned as a non-elected public servant.

Implications of the Proposed Changes

SB 49 creates a second tier of benefits in each plan of MERS for members who are first employed on or after January 1, 2013. The proposed law establishes new retirement eligibilities for Plan A Tier 2 and Plan B Tier 2, and it permits the board of trustees of MERS to set the employee contribution rate for each plan within specified ranges. SB 49 also eliminates the additional 0.5% accrual rate for members of MERS who are elected public servants. All service for members hired on or after January 1, 2013 will be treated as if earned by a non-elected public servant.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Actuarial costs associated with future members of MERS will be less under SB 49 than they would be without enactment of the bill. Employer contribution requirements are likely to be reduced and benefits earned by employees will be less. However, these savings will not begin to be recognized until new members first employed on or after January 1, 2013 begin to replace current active members.

It is estimated that the new benefit structure will cost 0.70% of payroll less when all existing Plan A members have been replaced with new members. The reduction in the employer contribution rate is expected to be 0.68% smaller by the end of the five year fiscal measurement period.

It is estimated that the new benefit structure will cost 0.19% of payroll less when all existing Plan B members have been replaced with new members. The reduction in the employer contribution rate is expected to be 0.17% smaller by the end of the five year fiscal measurement period.

Therefore, employer contribution requirements to MERS will decrease by the following amounts over the fiscal measurement period.

Fiscal Year	Plan A	Plan B	Total
2012-13	$ 0	$ 0	$ 0
2013-14	288,000	29,000	317,000
2014-15	575,000	57,000	632,000
2015-16	863,000	86,000	949,000
2016-17	1,150,000	114,000	1,264,000

Other Post Retirement Benefits

SB 49 should reduce actuarial costs associated with post-employment benefits other than pensions. Members will retire later than they would have otherwise and, as a result, the liability associated with these benefits will decrease.

Analysis of Fiscal Costs

SB 49 will have the following effects on fiscal costs.

Expenditures:

1. Expenditures by MERS (Agy Self-Generated) will increase to the extent that the MERS board elects to increase employee contributions requirements. Larger employee contribution requirements will produce larger refunds to employees who terminate employment before becoming eligible for any other type of benefit.

2. Expenditures from Local Funds will decrease in accordance with the table shown above under Analysis of Actuarial Costs.

Revenues:

1. Revenues for MERS will increase to the extent that increases in employee contribution requirements due to board action are larger than the reduction in the employer contribution rate. These revenues are expected to be negligible.

2. Revenues for MERS will decrease in accordance with the table shown above under Analysis of Actuarial Costs.

<u>Actuarial Credentials:</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.

<u>Dual Referral:</u>

<u>Senate</u>	**<u>House</u>**
☐ 13.5.1 ≥ $100,000 Annual Fiscal Cost	☐ 6.8(F) ≥ $500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change	☐ 6.8(G) ≥ $500,000 Annual Tax or Fee Change