


**2014 REGULAR SESSION
ACTUARIAL NOTE HB 1278**

<p>House Bill 1278 HLS 14RS-3532 Reengrossed with House Floor Legislative Bureau Amendment #3354 and House Floor Amendment #4452</p> <p>Author: Representative J. Kevin Pearson Date: May 8, 2014</p> <p>LLA Note HB 1278.03</p> <p>Organizations Affected: Louisiana State Employees' Retirement System Harbor Police Retirement System</p> <p>RE INCREASE APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 1278 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/STATE EMPS: Provides for enrollment of new hires of the Harbor Police Department of the Port of New Orleans in the Hazardous Duty Services Plan in the La. State Employees' Retirement System and for administration of the Harbor Police Retirement System by the La. State Employees' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

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

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

<u>Actuarial Cost (Savings) to:</u>	<u>Increase (Decrease) in The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

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. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2014-15	2015-16	2016-17	2017-2018	2018-2019	5 Year Total
State General Fund	\$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Increase	Increase	Increase	Increase	Increase
Annual Total	\$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	2014-15	2015-16	2016-17	2017-2018	2018-2019	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

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Bill Information:

Current Law

Under current law, the Harbor Police Retirement System (HPRS) is a retirement system that is separately identified in Title 11 of Louisiana revised statutes. It is operated by a board of trustees consisting of appointees by the Port of New Orleans, members and retirees of the Harbor Police, and other individuals elected in accordance with R.S. 11:3688.

Proposed Law

If HB 1278 is enacted, the HPRS board of trustees will be dissolved on July 1, 2015, and the retirement system will be merged into the Louisiana Employees' Retirement System (LASERS). This transaction will occur by means of a cooperative endeavor agreement (CEA) between the Port of New Orleans, the HPRS, and LASERS. Provisions of HB 1278 relevant to the agreement are summarized below:

Administration and Funding:

1. All service providers will be selected by LASERS.
2. LASERS will administer the benefit provisions of HPRS in accordance with RS 11:3681-3697 as amended once the CEA becomes effective.
3. HPRS will be closed for any new members on or after July 1, 2015.
4. Assets of the HPRS will be transferred to LASERS and become part of the LASERS trust.
5. HPRS will become a sub plan of LASERS. As a sub plan, contribution requirements for the Port of New Orleans will be based on the following calculations.
 - a. A normal cost specifically calculated for HPRS using the same actuarial funding method as LASERS uses.
 - b. An unfunded accrued liability rate specifically calculated for the Port of New Orleans pertaining to legislation, changes in governmental organization, or re-classification of employees or positions relative to employees of the Police Department of the Port of New Orleans.
 - c. An unfunded accrued liability rate or annual amount established under the CEA necessary to liquidate the current UAL of the HPRS.
 - d. A shared UAL rate relative to UALs incurred by LASERS on or after July 1, 2015. This rate will cease July 1, 2022 or a date established by the CEA if earlier.
 - e. A shared UAL rate relative to all UALS incurred by LASERS. This rate will begin July 1, 2022 or on a date established by the CEA if earlier.
 - f. The 20% limit on employer contributions to HPRS will be eliminated.
 - g. All fines that otherwise were sources of revenue for HPRS will be retained by the Port of New Orleans.
6. Employees of the Police Department of the Port of New Orleans and retirees of the HPRS will be allowed to participate in voting for appropriate representation on the LASERS board of trustees.

System Membership:

1. An active member of the HPRS first employed on or before June 30, 2015, and who has not participated in DROP may irrevocably elect to transfer his membership to the Hazardous Duty sub plan of LASERS. Any actuarial cost associated with such a transfer will be paid by the member.
2. Current participants in HPRS including retirees and active members shall retain all accrued benefits and shall continue to accrue benefits under the HPRS benefit structure unless he or she transfers to the LASERS Hazardous Duty sub plan.
3. Commissioned employees of the Harbor Police Department for the Port of New Orleans first employed on or after July 1, 2015, shall become members of the LASERS Hazardous Duty sub plan.
4. Effective July 1, 2015, the calculation and granting of permanent benefit increases for member of the HPRS shall be in accordance with R.S. 11:542.

Effective Date:

1. Provisions of HB 1278 pertaining to the enrollment of employees of the Harbor Police Department of the Port of New Orleans become effective July 1, 2015.
2. Provisions of HB 1278 pertaining to the merger of HPRS into LASERS will become effective June 30, 2014.

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Implications of the Proposed Changes

HPRS will be closed to new members effective June 30, 2015. Employees of the Harbor Police Department of the Port of New Orleans first employed on or after July 1, 2015 will become members of the LASERS Hazardous Duty sub plan. HPRS will be merged into LASERS effective July 1, 2015.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 1278 contains benefit provisions having an actuarial cost. For example, the normal form of benefit for a retiree of HPRS is a life annuity. The normal form of benefit for a retiree from the Hazardous Duty plan who has been married for at least 2 years is a joint and 75% survivor benefit.

HPRS is not an actuarially funded retirement system. It is financed by the following amounts:

1. Employee contributions equal to 9% of pay.
2. All fines collected from violations of ordinances of the City of New Orleans applicable to the wharves, landings, and the river front.
3. Actuarially calculated employer contributions not to exceed 20% of pay.

These amounts are not sufficient to maintain the retirement system on an actuarially sound basis.

HB 1278 provides that the Port of New Orleans will liquidate the UAL for the HPRS by June 30, 2022, and that employer contributions to the system in the future will be actuarially calculated without regard to the 20% limitation.

The unfunded accrued liability of HPRS as of June 30, 2013, was about \$7.8 million based on the Entry Age Normal Funding method, a 7.0% discount rate, and a mortality table established in 1971. Under HB 1278, the Port of New Orleans will liquidate on or before June 30, 2022, the UAL for HPRS as calculated in accordance with assumptions and methods used by LASERS (the Projected Unit Credit method, 8.0% discount rate, and a 2000 mortality table). It is uncertain whether the UAL calculated by HPRS will be more or less than the UAL calculated by LASERS. Nevertheless, it is likely that the Port will be liquidating a UAL that is approximately \$8 million.

Once the Port has liquidated the UAL associated with HPRS, it will then contribute toward the UAL of the entire system including UALs established before the Port became a participating employer of LASERS.

The following general conclusions can be drawn relative to the various stakeholders of LASERS and HPRS.

1. Contributions by the Port of New Orleans relative to members of HPRS and future commissioned Harbor Police who will become members of the Hazardous Duty sub plan of LASERS will increase significantly. Currently, the Port is only paying 20% of pay for existing members of HPRS. In the future it will be paying the employer normal cost rate based on the Projected Unit Credit funding method and assumptions used by LASERS plus amortization payments sufficient to maintain LASERS and the HPRS sub plan on an actuarially sound basis.
2. Contributions by the Port of New Orleans will increase in order to liquidate the UAL for the HPRS.
3. Contributions by the Port of New Orleans will increase for FYE 2023 and later years once it begins to be charged for amortization of the shared UAL of LASERS occurring before the Port became a participating employer of LASERS.
4. Contributions by the Port of New Orleans will increase relative to its employees who become members of the Hazardous Duty sub plan of LASERS. The benefit structure for the Hazardous Duty sub plan is more generous than the benefit structure for HPRS.
5. Employer contributions from the General Fund will decrease as the Port of New Orleans begins to pay a share of the UAL incurred by LASERS before the Port became a participating employer of LASERS.
6. Benefit payments from LASERS will increase as commissioned employees of the Harbor Police Department of the Port of New Orleans join LASERS and receive more generous benefits.
7. LASERS revenues will increase as it receives employer normal cost contributions, UAL liquidation payments, and shared amortization payments from the Port of New Orleans.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 1278 for post-employment benefits other than pensions.

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Analysis of Fiscal Costs

HB 1278 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from General Funds will decrease to the extent that the Port of New Orleans begins to pay toward the shared UAL for LASERS. This will happen immediately relative to Harbor Police first employed on or after July 1, 2015. Decreases relative to existing members of HPRS will not occur until FYE 2023.
2. Expenditures from LASERS (Agy Self-Generated) will increase relative to any member of HPRS who transfers to the Hazardous Duty sub plan and then retires within the fiscal measurement period.
3. Expenditures from LASERS will increase because it will begin paying benefits to retired members of HPRS.
4. Expenditures from Local Funds will increase as the Port liquidates the HPRS UAL and pays larger contributions relative to its employees participating in the HPRS and Hazardous Duty sub plans of LASERS.

Revenues:

1. LASERS revenues (Agy Self-Generated) will increase on July 1, 2015 as HPRS assets are transferred to LASERS.
2. LASERS revenues (Agy Self-Generated) will increase as it receives employer normal cost contributions, UAL liquidation payments, and shared amortization payments from the Port of New Orleans.

Actuarial Data, Methods and Assumptions

This actuarial note has been prepared based on the June 30, 2013 actuarial valuation report prepared by Conefry & Company, LLC. We are relying on the professional certification of the actuary signing this report. The note is also based on the June 30, 2013, actuarial valuation report for LASERS adopted by PRSAC in March 2014.

Actuarial Caveat

There is nothing in HB 1278 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

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.

Dual Referral:

Senate

- 13.5.1: Annual Fiscal Cost \geq \$100,000
- 13.5.2: Annual Tax or Fee Change \geq \$500,000

House

- 6.8(F)(1): Annual State Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual State Revenue Reduction \geq 500,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000