



**OFFICE OF LEGISLATIVE AUDITOR
2026 REGULAR SESSION
ACTUARIAL NOTE**

House Bill 31 HLS 26RS-508 Engrossed Author: Echols LLA Note HB 31.02	Date: April 17, 2026 Organizations Affected: MPERS EG SEE ACTUARIAL NOTE APV
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Bill Header: RETIREMENT/MUNICIPAL POL: Authorizes certain municipalities to terminate participation in the Municipal Police Employees' Retirement System

Purpose of Bill: Proposed law 1) permits a municipality with a population between 1,950 and 2,950 to elect to make an irrevocable election to terminate participation in MPERS for employees who would otherwise be enrolled in MPERS who are hired on or after the effective date of a termination resolution adopted by the municipality's governing authority, and the election is made by June 30, 2027, 2) creates a new subplan, Plan C, within the Municipal Police Employees' Retirement System (MPERS) that provides in-service death and disabilities benefits only, and 3) permits any municipality that participates in Social Security to elect to remove the ability for employees to opt-out of participation in MPERS on an individual basis and instead have all of its employees participate in either Plan C or the Hazardous Duty subplan.

Summary of Impact¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

The effect of proposed law on the *actuarial present value of expected future benefits and administrative expenses* incurred by the retirement system is not actuarially determinable. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation can be found in Section II: Fiscal Impact on Retirement Systems.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	See Section II	See Section II
Local Government Entities	See Section II	0
State Government Entities	0	0
Total	See Section II	See Section II

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
Local Government Entities	\$ 0	\$ 0
State Government Entities	0	0
Total	\$ 0	\$ 0

¹ This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "Information Pertaining to La. Const. Art. X, §29(F)").

<p>This Note has been prepared by the Actuary for 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>Kenneth J. "Kenny" Herbold, ASA, EA, MAAA Director of Actuarial Services Louisiana Legislative Auditor</p>
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I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

Proposed law 1) permits a municipality with a population between 1,950 and 2,950 to elect to make an irrevocable election to terminate participation in MPERS for employees who would otherwise be enrolled in MPERS who are hired on or after the effective date of a termination resolution adopted by the municipality's governing authority, and the election is made by June 30, 2027, 2) creates a new subplan, Plan C, within MPERS that provides in-service death and disabilities benefits only, and 3) permits any municipality that participates in Social Security to elect to remove the ability for employees to opt-out of participation in MPERS on an individual basis and instead have all of its employees participate in either Plan C or the Hazardous Duty subplan.

1. Proposed law permits a municipality with a population between 1,950 and 2,950 to elect to make an irrevocable election to terminate participation in MPERS for employees who would otherwise be enrolled in MPERS who are hired on or after the effective date of a termination resolution adopted by the municipality's governing authority, and the election is made by June 30, 2027.

This is not expected to have an immediate impact on the retirement system's actuarial present value of expected future benefits but to the extent some municipalities take advantage of this option, MPERS could experience a decline in the participating population as current members in these municipalities are replaced by new employees and therefore, over the long-term, the actuarial present value of expected future benefits will decrease, or not increase as much as it otherwise would.

Retirement contributions consist of 3 primary parts. The cost of the benefit for an active participant attributable to service worked during the current fiscal year (normal cost), if not fully funded, a payment to fund benefits attributable to service worked in prior fiscal years (UAL amortization payment), and a contribution to the Funding Deposit Account (FDA) to fund future cost of living adjustments (COLAs). Normal cost and FDA contributions are only paid on actively participating employees so to the extent new employees do not participate in MPERS, MPERS will not receive as much in contributions.

The UAL amortization payment is calculated as a specified dollar amount and is apportioned across all participating employers as a percentage of the salary of participating employees. Therefore, the total UAL payment in a given year does not change based on the number of participants, or the total payroll. However, the amount a given employer will pay does change based on that employer's payroll in relation to the payroll of all participating employees, and any associated dissolution payments.

Proposed law does not make any changes to the partial dissolution rules, therefore it is possible that a municipality that elects to opt-out of future participation could trigger the requirement to cover a portion of the UAL under these provisions. It is worth noting that, by design, it is unlikely for the partial dissolution rules to be triggered due to natural turnover, particularly for small employers with only a few participating members, except when the total participants drop to zero, in which case the amount of UAL the municipality would be obligated to pay is likely small.

We have identified 22 municipalities that, based on 2020 census information, have at least 1,950 but less than 2,950 residents. Of these 22 municipalities, we have identified 20 with a total of 113 actively employed participants as of June 30, 2025, representing approximately 1.4% of total payroll. MPERS' minimum required employer contribution for FY 2027 is 26.5% of projected payroll, 25.0% is for the UAL Amortization Payment. Therefore, if all eligible municipalities elect to opt-out and no municipality that opts out triggers the partial dissolution payment requirement, an 1.4% reduction in total payroll would increase the employer contribution rate for a similar UAL amortization payment from 25.0% to approximately 25.35% of payroll.

2. Proposed law creates a new subplan, Plan C, within the Municipal Police Employees' Retirement System (MPERS) that provides death and disabilities benefits only.

The employee contribution for Plan C is 0% and the employer contribution rate applied to the payroll of members of Plan C "shall not exceed the cost of administering the plan." Without additional statutory guidance, some interpretations must be made with respect to what "the cost of administering the plan" means. One potential interpretation is the annual administrative costs plus any benefits being paid, which would be allocated as a percentage of the payroll of members. This approach is likely to have significant volatility. However, it is our understanding the intent is for Plan C to operate as a prefunded death and disability benefit plan and the "cost of administering the plan" is intended to be an actuarially determined contribution rate.

Again, without additional statutory guidance, it is reasonable to assume the MPERS board and its actuary would follow a similar funding approach to what is currently in place for the Hazardous Duty and Nonhazardous Duty subplans and use the Entry Age Normal (EAN) Level Percent of Pay cost method to develop an actuarially determined contribution. Assuming the MPERS board does not establish completely separate accounting for Plan C (which is likely to be administratively costly) then all actuarial gains and losses (both investment and demographic) experienced by Plan C would be pooled with the actuarial gains and losses experienced by the other subplans and be included in the employer contribution rate for those subplans, i.e. it would not be part of the Plan C employer contribution rate. In contrast, it seems reasonable the administrative costs to value and operate Plan C could be pooled with the administrative costs of the other subplans and allocated according to total payroll, such that it would be included in the Plan C employer contribution rate.

The EAN funding method is designed to result in a relatively level percent of pay normal cost rate over a participant's career. However, the calculated rate for the same benefits is driven by two primary factors, a) the underlying population and b) the demographic assumptions.

- a. The normal cost is highly sensitive to the underlying population's demographics, in particular the average entry age. For a mature plan, participant demographics are fairly well established, and the average entry age does not shift significantly from one-year to the next, so the calculated normal cost is relatively stable and known. For a new plan that is established with an already existing population that ranges from early career to late career participants, the initial average entry age is likely to be significantly higher than what would be calculated for a mature plan, and therefore, the expected normal cost can be expected to be significantly higher than what would be seen in a mature plan with identical benefits and population. Over time, as new entrants skew younger, the average entry age can be expected to come down.

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In addition, the actual populations’ demographics will impact the expected normal cost calculation. For relatively large populations, demographics do not shift significantly from one year to the next. For small populations, to the extent one person represents a measurable percentage of the existing population, we would expect to see more variability in the normal cost calculation year over year, which can potentially introduce risk to participating employers.

- b. The other primary driving force behind the development of the normal cost rate are the assumptions. A death and disability only benefit plan is likely to have different experience than a traditional final average pay plan that offers termination and retirement benefits in addition to death and disability benefits, even for the exact same population and exact same death and disability benefits. For Plan C, the primary retirement benefit of the members will be a Social Security benefit. Social Security benefits are less generous, have significantly later retirement eligibility, and generally more restrictive disability requirements than MPERS benefits, including the proposed Plan C. This provides a significant incentive for participants who are disabled to seek to have that disability qualify for the provided disability benefit. In addition, while we would not expect the Plan C population to experience significantly higher mortality rates than the general MPERS population, the lack of a non-in-service death benefit provides an incentive for survivors to seek to have the death be determined to qualify as in-service.

MPERS’ actuary modeled various scenarios related to the benefits included in proposed law starting with MPERS’ current disability and mortality assumptions as well as with increased in-service disability rates. The results of the sensitivity analysis did not necessarily include the worst-case scenario but included more conservative assumptions that may be likely. The individual normal cost rates range from 1% on the low end to 13.9% on the high end. This illustrates the relatively high variability in potential normal cost rates that could result once the actual population is known. To the extent the overall population is relatively young when they enter the plan, actual normal cost rates will tend towards the lower end, with rates rising as the average entry age of the population increases. This analysis is predicated on the assumption that only new hires will be covered by Plan C and no employees with prior service credit will participate. To the extent that assumption is incorrect, contribution rates would likely increase.

- 3. Proposed law permits any municipality that participates in Social Security to elect to remove the ability for employees to opt-out of participation in MPERS on an individual basis and instead have all of its employees participate in either Plan C or the Hazardous Duty subplan.

According to MPERS website, there are 135 municipalities currently participating in Social Security. These 135 municipalities had a total of 693 actively employed participants as of June 30, 2025. To the extent these municipalities opt to participate in Plan C, the present value of future benefits will not increase as much as it otherwise would. To the extent these municipalities opt to have all of its employees participate in the Hazardous Duty subplan, including those who would ordinarily participate in the Nonhazardous Duty subplan, the present value of future benefits will increase.

Other Considerations

- 1. Proposed law does not specify how current employees who are participating in MPERS will be impacted should a municipality elect to have all of its employees participate in Plan C.
- 2. Similarly, proposed law does not specify what happens to current employees if a municipality elects to have all employees participate in the Hazardous Duty subplan. For employees currently in the Nonhazardous Duty subplan, does the higher accrual rate apply to past service or only to future service? If to future service only, can the employee purchase the additional accrual for past service?
- 3. In addition, there are a number of outstanding questions with respect to how Plan C would operate in practice, including, but not limited to, how service would be credited should someone move between MPERS employers who participate in different subplans, how service in Plan C would be considered in a reciprocal agreement with a different Louisiana public retirement system, how retirees of one subplan would be treated if hired by an MPERS employer participating in a different subplan, how future COLAs would impact Plan C members, etc.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. 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: Retirement System Fiscal Cost

Expenditures	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below	See Below	See Below	See Below	See Below	See Below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Below	See Below	See Below	See Below	See Below	See Below
Annual Total	See Below	See Below	See Below	See Below	See Below	See Below

Revenues	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below	See Below	See Below	See Below	See Below	See Below
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	See Below	See Below	See Below	See Below	See Below	See Below

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

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

1. Expenditures:

As more thoroughly described in Section I, certain provisions of proposed law would increase benefits payable by the retirement system (Agy Self-Generated) and some provisions would decrease benefits payable. In addition, some provisions would increase the contributions paid by participating employers (Local Funds) and some provisions would decrease the contributions. The net effect is not determinable at this time.

2. Revenues:

Changes in retirement contributions identified as expenditures have corresponding changes in Agy Self-Generated revenues.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Section II.

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES **(Prepared by Legislative Fiscal Office)**

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Section II.

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

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations presented herein, we may have utilized commercially available valuation software. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

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

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).

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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;
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 at rates that differ from what was 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.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

- This bill contains a retirement system benefit provision having an actuarial cost.

Some members of a retirement system, or their beneficiary, could receive a larger benefit with the enactment of this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2026 Regular Session.

Senate

- 13.5.1 Applies to Senate or House Instruments
If an annual fiscal cost \geq \$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 \geq \$500,000, then bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

House

- 6.8F Applies to Senate or House Instruments
If an annual General Fund fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Appropriations
- 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes \geq \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means