

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 37**

<p>House Bill 37 HLS 17RS-305 Original</p> <p>Author: Representative Christopher Leopold Date: April 5, 2017 LLA Note HB 37.01</p> <p>Organizations Affected: Parochial Employees' Retirement System of Louisiana Firefighters' Retirement System</p> <p>OR SEE BELOW</p>	<p>This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. 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> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: RETIREMENT/PAROCHIAL EMP: Authorizes certain employees of Plaquemines Parish government to remain in the Parochial Employees' Retirement System of Louisiana.

Cost Summary:

The estimated actuarial and fiscal impact of HB 37 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the *actuarial present value of future benefit payments*. 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 other 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 *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.

Actuarial Costs Pertaining to:	<u>Actuarial Cost</u>	
The Retirement Systems		See Below
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		0
Total		See Below
	<u>Fiscal Costs</u>	
Five Year Fiscal Cost Pertaining to:	<u>Expenses</u>	<u>Revenues</u>
The Retirement Systems	See Below	See Below
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	See Below	See Below

"See Below" refers to Section I; Subsection A and Section II; Subsection A.

Bill Information

Current Law

Persons who are eligible for membership in any other Louisiana public retirement system or fund are not entitled to membership in the Parochial Employees' Retirement System of Louisiana (PERS). Furthermore, any person who is ineligible for membership in any other retirement system covering his employment because of his failure to meet requirements or qualifications for that system shall not be eligible for membership in PERS.

In May 2015, Plaquemines Parish enacted an ordinance consolidating the parish ambulance department with the fire department. Before the departments were consolidated, there were approximately 32 employees of the ambulance department who were members of PERS. The fire department participates in the Firefighters' Retirement System (FRS). So as of the consolidation date, the 32 employees were transferred out of PERS to the extent they are in a FRS-eligible classification.

However, 15 of the 32 employees were not allowed to become members of FRS because they were older than age 50 on the transfer date (an age-requirement of FRS). For the purpose of this actuarial note, we are assuming that these 15 employees would otherwise be eligible for FRS by reason of their job classification and their employment by a fire department. So after the consolidation/transfer date, the 15 employees may be excluded from membership in both PERS and FRS.

Our consideration of whether these employees are included or not included in PERS is addressed below.

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Proposed Law

HB 37 provides that an employee of the old ambulance department whose age bars him from becoming a member of FRS as of the transfer date will be allowed to continue his membership in PERS, retaining full past service credit in that system.

Implications of the Proposed Changes

HB 37 provides a retirement system for the 15 employees of the old ambulance department who lost eligibility for membership in PERS and were also prohibited from becoming members of FRS.

I. ACTUARIAL ANALYSIS SECTION

**A. Analysis of Actuarial Costs
(Prepared by LLA)**

This section of the actuarial note pertains to the *actuarial present value cost or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

Assumption Set A: There are 15 employees of the old ambulance department that are not members of either FRS or PERS.

The actuarial present value cost of HB 37 associated with the retirement systems is estimated to be \$2,639,121. Our analysis is summarized below.

As a result of HB 37, actuarial costs associated with PERS will increase. Currently, the 15 former members of the ambulance department have no pension rights except for what they have accrued under PERS through the transfer date. With the enactment of HB 37, these employees will gain the right to be members of PERS retroactive to transfer date. HB 37 has the following effect on actuarial costs.

1. The present value of future benefits associated with PERS will increase by approximately \$2,639,121.
2. The preliminary normal cost percentage will increase 4 basis points. However, due to rounding procedures used in the development of the minimum required contribution, the final contribution rate for FY 2017 is unaffected. The dollar increase in normal cost resulting from salaries of the 15 former members to contribution payroll is approximately \$103,040 for the 2017-18 fiscal year.

Assumption Set B: There are 15 employees of the old ambulance department that were members of PERS and that will continue to be members of PERS.

The actuarial present value cost of HB 37 associated with the retirement systems is estimated to be \$0. Our analysis is summarized below.

No member will change retirement system due to the enactment of HB 37. The 15 employees of the old ambulance department are currently members of PERS and they will continue to be members of PERS with or without the enactment of HB 37.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 37 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. HB 37 has no effect on OPEB benefits.

3. Other Government Entities

The actuarial cost of HB 37 associated with government entities other than those identified in HB 37, is estimated to be \$0.

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

Unless indicated otherwise, the actuarial note for HB 37 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by 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.

**C. Actuarial Caveat
(Prepared by LLA)**

There is nothing in HB 37 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A1), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 37 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

**A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)**

A1. Narrative for Assumption Set A

Assumption Set A: There are 15 employees of the old ambulance department that are not members of either FRS or PERS.

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.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A1

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	30,206	105,630	145,510	165,785	205,339	652,469
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	83,340	74,222	57,607	41,589	256,758
Annual Total	\$ 30,206	\$ 188,970	\$ 219,733	\$ 223,392	\$ 246,927	\$ 909,227

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	158,742	141,376	109,729	79,216	489,063
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	\$ 158,742	\$ 141,376	\$ 109,729	\$ 79,216	\$ 489,063

The effect that HB 37 will have on retirement related fiscal costs and revenues during the five year measurement period is shown in Table A and in Items 2 and 3 below.

1. Expenditures:
 - a. Expenditures from PERS (Agy Self-Generated) will increase whenever one of the 15 employees of Plaquemines Parish retires or becomes entitled to some other benefit. The cost values shown in Table A were prepared by assuming the 15 employees will retire on their earliest possible retirement dates. Because several of the 15 employees will retire over the next 5 years, PERS expenditures will increase.
 - b. It is estimated that Local Fund expenditures will increase \$83,340 for the 2018-19 fiscal year. The increase will occur because 15 employees of Plaquemines Parish who are not currently entitled to earn benefits will be allowed to do so beginning in 2018-19. Thereafter, employer contribution expenditures will decrease as the 15 members attain retirement age and cease being employed.
2. Revenues:
 - a. PERS revenues (Agy Self-Generated) will increase \$158,742 beginning for 2018-19. The increase will occur because the contribution payroll for PERS will increase. Thereafter, PERS revenues from employer contributions will decrease as the 15 members attain retirement age and cease being employed.

Note: Employer contribution requirements will become smaller over time as these 15 members retire.

A2. Narrative for Assumption Set B

Assumption Set B: There are 15 employees of the old ambulance department that were members of PERS and that will continue to be members of PERS.

HB 37 will have no effect on fiscal costs associated with the retirement systems and the employers that sponsor PERS and FRS. HB 37 does not change anything. Table A2 shows \$0 for all cells and therefore was not included in the actuarial note.

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**B. Estimated Fiscal Impact – OPEB
(Prepared by LLA)**

1. Narrative

Table B shows the estimated fiscal impact of HB 37 on costs associated with OPEB and the government entities that sponsor these benefits. Fiscal costs in Table B include administrative costs associated with the government entity sponsoring the OPEB program. 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

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

HB 37 will have no effect on fiscal costs associated with OPEB during the five year measurement period.

**C. Estimated Fiscal Impact – Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Mike Battle, Audit Manager for the LLA)**

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of HB 37 on such government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

The effect that HB 37 will have on fiscal costs and revenues related to other government entities during the five year measurement period is shown in Table C and in Items 2 and 3 below.

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2. Expenditures:

There is no anticipated indirect material effect on the expenditures of the Plaquemines Parish fire department as a result of this measure. This bill requires employees of the Plaquemines Parish fire department who were former employees of the ambulance department and who are ineligible to transfer service credit to or become members of FRS, due to their age, to remain in PERS. According to information from the Plaquemines Parish fire department, the affected employees are currently participants in PERS. Therefore, there is no fiscal impact to the fire department.

3. Revenues:

There is no anticipated indirect material effect on the revenues of the Plaquemines Parish fire department as a result of this measure. This bill requires employees of the Plaquemines Parish fire department who were former employees of the ambulance department and who are ineligible to transfer service credit to or become members of FRS due to their age to remain in PERS and, therefore, this bill will have no fiscal impact on revenues.

**D. Estimated Fiscal Impact – All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)**

1. Narrative

Table D shows the estimated fiscal impact of HB 37 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A1, Table B, and Table C. 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.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A1, B, & C)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	See Above	See Above	See Above	See Above	See Above	See Above
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	See Above	See Above	See Above	See Above	See Above
Annual Total	\$ 0	See Above	See Above	See Above	See Above	See Above

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	See Above	See Above	See Above	See Above	See Above
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	See Above	See Above	See Above	See Above	See Above

“See Above” refers to Section II; Subsection A.

Credentials of the Signatory Staff:

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.

Mike Battle, Audit Manager for the Louisiana Legislative Auditor has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

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

HB 37 contains a retirement system benefit provision having an actuarial cost.

Under Assumption Set A, some employees of the former ambulance department for Plaquemines Parish will receive a larger benefit with the enactment of HB 37 than he would have received without HB 37. Therefore, HB 37 contains provisions having an actuarial cost. However, under Assumption Set B, there are no costs or savings associated with HB 37.

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

The information presented below is based on information contained in Table D (and Assumption Set A) for the first three years following the 2017 regular session.

Senate

House

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

6.8F

Applies to Senate or House Instruments.

If an annual General Fund fiscal cost \geq \$100,000, then the bill is dual referred to:

Dual Referral to Appropriations

13.5.2

Applies to Senate or House Instruments.

If an annual tax or fee change \geq \$500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

6.8G

Applies to Senate Instruments only.

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:

Dual Referral: Ways and Means