



OFFICE OF LEGISLATIVE AUDITOR
2025 REGULAR SESSION
ACTUARIAL NOTE

House Bill 19 HLS 25RS-264	Date: June 12, 2025
Enrolled	Organizations Affected: FRS
Author: Kerner	
LLA Note HB 19.05	EN SEE ACTUARIAL NOTE APV

Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to the administration and participation in the Deferred Retirement Option Plan for the Firefighters' Retirement System

Purpose of Bill:

Proposed law:

1. Removes the provisions that a) reduces benefit payments from the Firefighters’ Retirement System (FRS) and b) requires an annual earnings statement be provided to the FRS Board, for disability retirees who are otherwise gainfully employed and earn above a specified amount if the disability retiree is at least 62 years of age.
2. Makes administrative changes with respect to the payment of refunds of employee contributions.
3. Requires, effective April 1, 2026, employer contributions to be paid on the salaries of members participating in the Deferred Retirement Option Plan (DROP).
4. Extends the maximum DROP period from 3 to 5 years for members with at least 28 years of service credit.
5. Creates a self-directed DROP investment account option.
6. Entitles FRS to recover all actuarial costs incurred due to the failure of an employer to properly report employee compensation or pay the correct retirement contribution on an employee’s pay.

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

Proposed law is not expected to have an immediate impact on the *net actuarial present value of expected future benefits and administrative expenses* incurred by the retirement system. Over the long term, the net effect of proposed law on the net actuarial present value of expected future benefits and administrative expenses incurred by the retirement system is not actuarially measurable. 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:	Expenditures	Revenues
The Retirement Systems	See Section II	\$ 0
Local Government Entities	0	0
State Government Entities	0	0
Total	See Section II	\$ 0

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:	Expenditures	Revenues
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)**”).

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.

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Louisiana Legislative Auditor

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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 contains several provisions, most have limited or no actuarial impact, and in general the net impact of all provisions are not actuarially measurable. However, the following provisions are worth discussion:

1. Removes the provisions that a) reduces benefit payments from the Firefighters' Retirement System (FRS) and b) requires an annual earnings statement be provided to the FRS Board, for disability retirees who are otherwise gainfully employed and earn above a specified amount if the disability retiree is at least 62 years of age.

In general, requiring a reduction in benefits for individuals who earn above a specified threshold due to other gainful employment reduces the total expected benefits paid by the system and reduces the likelihood of attempts to defraud the system. We do not have sufficient data to calculate any historical impact from this provision or to predict the expected future impact of removing this provision. However, based on data provided by FRS for 2023, any impact is expected to be minimal. Of the 158 disability retirees during 2023, only 7 received a reduction of their benefit due to exceeding the earnings threshold and only 1 of these 7 members is over the age of 62, with the average age of all 7 members well below the age 62 threshold contained in proposed law.

2. Requires, effective April 1, 2026, employer contributions to be paid on the salaries of members participating in the Deferred Retirement Option Plan (DROP).

This provision does not change the expected cost of benefits or the total contributions received by FRS. This will, however, lower the expected contribution rate because it will increase the total payroll base over which the dollar contributions are spread. This will also result in shifting some of the cost from participating employers with lower DROP participation to those with higher DROP participation.

3. Extends the maximum DROP period from 3 to 5 years for members with at least 28 years of service credit.

If we assume that members elect the most financially optimal choice, we would expect this provision to increase costs. However, because members may remain employed post-DROP, extending the DROP period can increase costs in some situations and decrease costs in others. Experience has illustrated that people do not necessarily make the optimal decision from a financial standpoint so it is likely that this change will have a minimal impact.

4. Creates a self-directed DROP investment account option.

Current DROP participants have a choice to invest in a money market account or receive the same return as the overall portfolio, therefore this provision is not expected to impact the system's investment performance. In addition, FRS staff anticipate any administrative costs will be absorbed within the existing budget.

5. Entitles FRS to recover all actuarial costs incurred due to the failure of an employer to properly report employee compensation or pay the correct retirement contribution on an employee's pay.

This provision does not change the expected cost of benefits or the total contributions received by FRS. However, to the extent employee compensation is misreported and appropriate contributions are not received, but a member receives a higher benefit based on the correct compensation, the ultimate cost of the benefit would be borne by other participating employers via marginally higher contributions. This provision would help place the expected cost of a particular member's benefit on that member's employer.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

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

Of the 158 disability retirees during 2023, only 7 received a reduction of their benefit due to exceeding the earnings threshold and only 1 of these 7 members is over the age of 62, with the average age of all 7 members well below the age 62 threshold contained in proposed law. Permitting this 1 individual to receive their full benefit would increase total expenditures for the retirement system, but the impact is not considered to be material.

Extending the maximum DROP period from 3 to 5 years for members with at least 28 years of service credit is expected to impact both the timing and amount of benefit payments for some members. For example, members who would otherwise have retired upon exiting DROP at the end of the current 3-year period would receive a lump sum payment and begin monthly payments. Some of these individuals may now elect to continue in DROP for an additional two years, shifting the timing and amount of the lump sum payment later. Further, someone who is already expected to work for an additional 2 years post-DROP (i.e. 3 years in DROP and 2 years post-DROP for a total of 5 years) may also elect to continue in DROP for the remainder of that period. This results in a larger lump sum payment occurring at actual retirement, but a smaller ongoing annual benefit. The ultimate impact of the shift in timing and amount of payments is not considered to be material.

Overall, the proposed legislation is not expected to have any material effects on retirement related fiscal costs and revenues during the five-year measurement period.

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 Table A.

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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 Table A.

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 that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. 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).

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.

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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 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 2025 Regular Session.

Senate

- ☐ 13.5.1 Applies to Senate or House Instruments
If an annual fiscal cost ≥ \$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 ≥ \$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 ≥ \$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 ≥ \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means