2014 REGULAR SESSION
ACTUARIAL NOTE HB 27

House Bill 27 HLS 14RS-428 **Engrossed with House Retirement Committee Amendment #3202** **Author: Representative Arnold** **Date: April 16, 2014** **LLA Note HB 27.02** **Organizations Affected:** **Firefighters' Pension and Relief Fund in the city of New Orleans** **EG INCREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 27 provides compliance with the requirements of R.S. 24:521.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/LOCAL: Provides relative to the Deferred Retirement Option Plan in the Firefighters' Pension and Relief Fund in the city of New Orleans.

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.

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

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	$ 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	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	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

Current law establishes a Deferred Retirement Option Plan (DROP) for members of the Firefighters' Pension and Relief Fund in the city of New Orleans (NOFF).

Proposed Law

HB 27 re-writes a significant portion of R.S. 11:3385.1 in which DROP benefit provisions for NOFF are codified. A summary of the more substantial changes is given below:

Current Law	HB 27
A member who continues employment after exiting DROP is credited with interest each year following DROP participation.	The requirement that the member continue employment following DROP to receive interest credits is removed.
The interest rate credit is based on the composite one-year rate of return on the fund.	The interest rate credit will be based on the composite five-year rate of return on the fund for calendar years beginning January 1, 2015.
Post-DROP members receiving interest credits are charged 200 basis points for administrative fees.	Members receiving interest credits will be charged an administrative fee set by the board of trustees. In no event will the administrative charge exceed 200 basis points.
A member's DROP account may decrease due to investment earnings (a negative composite rate)	A member's DROP account may not decrease. The worst that can happen is for a DROP account to earn 0% interest.
If a member dies while in DROP, a lump sum payment shall be made to his designated beneficiary, or if none, to his estate.	If a member dies at any time before his DROP account is fully liquidated, the designated beneficiary may receive the balance in any form of payment approved by the board. If there is no designated beneficiary then the account shall be distributed in the following order: 1. The surviving spouse. 2. The surviving children shared equally. 3. The surviving parents. 4. The member's estate.
A member may change his designated beneficiary after starting DROP only if the beneficiary predeceases the member.	A member may change his beneficiary in accordance with law and rules established by the system.
The benefit of a post-DROP member who becomes disabled due to a service-connected disability shall be based only on service rendered after DROP.	The benefit of a post-DROP member who becomes disabled due to a service-connected disability shall be based on all service including service before, during and after DROP. The benefit also includes the DROP account.
	Any appeal of a benefit determination shall be lodged and conducted pursuant to the rules of the system. The board of trustees is given significantly greater latitude to establish benefit rules and procedures.

Implications of the Proposed Changes

HB 27 makes significant changes to DROP provisions applicable to participants of NOFF.

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Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Benefits available to members of NOFF will increase if HB 27 is enacted. The actuarial present value of future benefits of the system will increase relative to most of the provisions of HB 27 identified above. The other changes are cost neutral. Although there is no effective way to measure the increase in the actuarial present value of future benefit, the increase is real nonetheless.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 27 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 27 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from NOFF (Agy Self-Generated) will increase because HB 27 will result in larger benefit payments.

2. Expenditures from Local Funds will increase because employer contribution requirements will increase. (Note: this is not an actuarially funded plan. Contributions are received from budgeted amounts, fines and other levies, and employee contributions. But eventually, larger contributions will be necessary in order to provide the benefits promised by the law and the retirement system.)

Revenues:

- NOFF Revenues (Agy Self-Generated) will increase because contributions to the plan will increase.

Actuarial Data, Methods and Assumptions

This actuarial note has been prepared based on the January 1, 2013 actuarial valuation report prepared by Conefry & Company, LLC. This report reflects conditions of the plan more than 12 months ago. We are relying on the professional certification of the actuary signing this report.

Actuarial Caveat

There is nothing in HB 27 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:

Please check the correct box(es).

Senate	House
[x] 13.5.1: Annual Fiscal Cost ≥ $100,000	[ ] 6.8(F)(1): Annual State Fiscal Cost ≥ $100,000
[ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000	[ ] 6.8(F)(2): Annual State Revenue Reduction ≥ $500,000
	[ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000