2016 REGULAR SESSION
ACTUARIAL NOTE HB 58

House Bill 58 HLS 16RS-412 **Enrolled** **Author: Representative Walter J. Leger III** **Date: June 6, 2016** **LLA Note HB 58.04** **Organizations Affected:** **Firefighters' Pension and Relief Fund in the city of New Orleans** **EN INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 58 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 to Retirement Systems	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 to:	**Change in the Actuarial Present Value**
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 the retirement systems and other government entities. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**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 the Firefighters' Pension and Relief Fund in the city of New Orleans (NOFF) for the benefit of individuals employed by the fire department in the city of New Orleans who are actively engaged in extinguishing fires.

Under current law:

1. A member may elect to receive an initial lump sum benefit option and also participate in the Deferred Retirement Option Plan (DROP).

2. A participant who continues to be employed after terminating from DROP will earn interest on his DROP account based on a five-year rolling average of the composite rate of return of the pension fund as determined by the system's actuary.

3. The board of trustees is allowed to charge an administrative fee relative to DROP accounts.

Proposed Law

Under HB 58:

1. A member electing to participate in DROP will not be eligible to receive an initial lump sum benefit from NOFF.

2. Members exiting DROP on or after January 1, 2016 may elect to invest DROP account values in a money market account established by the board of trustees or may elect to have the DROP balance invested in the system's portfolio of assets.

3. If the member elects to invest his DROP account in a money market fund selected by system trustees, then the member's DROP interest will be equal to the rate of return earned by the selected money market fund.

4. If the member elects to invest his DROP account with the system, then the member's DROP interest rate will be based on a five year rolling average of the composite rate of return on the fund's investment portfolio less a 2.00% administrative fee. The member will be able to elect this investment if:

    a. He waives certain guarantees,

    b. He authorizes the fund to debit the account if the fund's investment performance earns a negative earnings rate.

Implications of the Proposed Changes

HB 58 prohibits a member from participating in DROP if he has elected the initial lump sum benefit option. HB 58 also allows a member exiting DROP to either invest his DROP balance in a money market fund selected by the board of trustees or with the systems investment portfolio.

Cost Analysis:

Analysis of Actuarial Costs

HB 58 contains benefit provisions having an actuarial cost.

Retirement Systems

The five-year rolling average of the composite rate of return of the pension fund is expected to be negative or very small over the next several years. Poor returns are the result of large write offs associated with the Fletcher investment and other at risk assets. Investing DROP balances in money market funds will produce positive rates of return and interest will be credited to DROP accounts.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 58 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 58 will have the following effect on fiscal costs during the five-year measurement period.

Expenditures:

1. Expenditures from NOFF (Agy Self-Generated) are expected to increase because investment credits to DROP accounts will increase. It is assumed, at least in the near future, that DROP members will elect to participate in the money market fund because it will provide a larger return on account balances than will investment with the system assets portfolio.

2. Expenditures from NOFF will also decrease because members participating in DROP will not be able to select both the initial lump sum option and DROP. As a result, benefit payments from NOFF will be postponed.

3. Expenditures from NOFF will decrease because administrative fees under HB 58 cannot exceed 2.00%. Under current law, administrative fees can exceed this amount.

4. Expenditures from Local Funds are expected to increase. Increased expenditures from NOFF will result in larger employer contribution requirements and larger local expenditures.

Revenues:

1. NOFF revenues (Agy Self-Generated) will increase because employer contribution requirements will increase.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report. This 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.

Actuarial Caveat

There is nothing in HB 58 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	House
☐ 13.5.1: Annual Fiscal Cost ≥ \$100,000	☐ 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000
☐ 13.5.2: Annual Tax or Fee Change ≥ \$500,000	☐ 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000
	☐ 6.8(G): Annual Tax or Fee Change ≥ \$500,000