


2016 REGULAR SESSION
ACTUARIAL NOTE HB 57

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| House Bill 57 HLS 16RS-389 Enrolled Author: Representative Walter J. Leger III Date: June 6, 2016 LLA Note HB 57.03 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 57 provides compliance with the requirements of R.S. 24:521  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services |
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Bill Header: RETIREMENT/LOCAL: Provides relative to the assessment and remittal of employee contributions to 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.

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|--------------------------------------|----------|
| Actuarial Cost to Retirement Systems | Increase |
| Total Five Year Fiscal Cost | |
| Expenditures | Decrease |
| Revenues | \$0 |

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.

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| Actuarial Cost to: | <u>Change in the Actuarial Present Value</u> |
| 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 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 | 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 | Decrease | Decrease | Decrease | Decrease | Decrease |
| Annual Total | \$ 0 | Decrease | Decrease | Decrease | Decrease | Decrease |

| 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 | 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 |

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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 the extinguishing of fires.

The board of trustees assesses each member of NOFF not less than 10% of his salary which is deducted monthly and then forwarded to NOFF.

Proposed Law

HB 57 makes the following changes:

1. The board of trustees will assess each member not less 10% of his "compensation" instead of "salary".
2. The deduction will be assessed each pay period instead of monthly.
3. An "employer pick-up" plan will be established within NOFF pursuant to IRS Code Section 414(h)(2). This Section of the IRS Code allows the city of New Orleans to deduct employee contributions from the member's pay and remit them directly to NOFF.
4. The deduction of employee contributions is not optional.
5. The employee has no right to receive the contributed amount directly instead of having them paid by the fire department directly to the retirement system.
6. "Pick-up contributions" are counted as part of employee compensation for the purpose of determining benefits and minimum compensation requirements.
7. The fire department must submit all member contributions to the system at least once per month.
8. The board of trustees shall adopt procedures and guidelines as it deems necessary and appropriate for the collection, remittal, and reporting of member contributions.

Implications of the Proposed Changes

HB 57 provides that employee contribution requirements will be based on a member's compensation instead of his salary. It also establishes an employer pick-up plan that meets the conditions necessary under IRC 414(h)(2).

Cost Analysis:

Analysis of Actuarial Costs

HB 57 contains benefit improvements having an actuarial cost. Refunds of employee contributions upon termination of employment will be larger because member contributions will be larger

Retirement Systems

Under current law, member contributions are to be not less than 10% of a member's salary. The meaning of the word "salary" has been disputed. HB 57 changes the word "salary" to "compensation" which will capture more of a member's income. As a result, employee contributions will increase and employer contribution requirements will decrease. As a result of this change, refunds of employee contributions upon termination of employment will be larger. This change will have no effect on any other benefit provisions because they are already based on "compensation."

Other Post-Employment Benefits

There are no actuarial costs associated with HB 57 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 57 will have the following effect on fiscal costs during the 5-year measurement period.

Expenditures:

1. Expenditures from NOFF (Agy Self-Generated) will increase. Employees will be contributing more to the system and as a result refunds to terminating employees will increase.
2. Expenditures from Local Funds will decrease because employee contribution requirements will increase. As a result, employer contribution requirements will decrease.

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Revenues:

- 1. NOFF revenues (Agy Self-Generated) will not change. The increase in employee contributions will be offset by the decrease in employer contributions and the total contribution will remain the same.

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 57 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:

| <u>Senate</u> | <u>House</u> |
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| <input type="checkbox"/> 13.5.1: Annual Fiscal Cost ≥ \$100,000 | <input type="checkbox"/> 6.8(F)(1): Annual Fiscal Cost ≥ \$100,000 |
| <input type="checkbox"/> 13.5.2: Annual Tax or Fee Change ≥ \$500,000 | <input type="checkbox"/> 6.8(F)(2): Annual Revenue Reduction ≥ \$100,000 |
| | <input type="checkbox"/> 6.8(G): Annual Tax or Fee Change ≥ \$500,000 |