

**2017 REGULAR SESSION
ACTUARIAL NOTE HB 23**

<p>House Bill 23 HLS 17RS-417 Engrossed</p> <p>Author: Representatives Barbara Carpenter and Mark Abraham Date: May 1, 2017 LLA Note HB 23.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG INCREASE APV</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/FIREFIGHTERS: Provides relative to benefit payments if an eligible member of the Firefighters' Retirement System dies prior to retirement.

Cost Summary:

The estimated actuarial and fiscal impact of HB 23 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:		Actuarial Cost
The Retirement Systems		Increase
Other Post-Employment Benefits (OPEB)		0
Other Government Entities		0
Total		Increase
Five Year Fiscal Cost Pertaining to:	Expenditures	Revenues
The Retirement Systems	Increase	Increase
Other Post-Employment Benefits	0	0
Other Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Current law provides that if any vested terminated member dies before selecting a benefit form, the member's *designated beneficiary* shall automatically be paid benefits as though the member had elected a 100% joint and survivor form of benefit, naming the designated beneficiary as the beneficiary.

In addition, if any active contributing member who is eligible for retirement dies before retiring, the member's *designated beneficiary* shall automatically be paid benefits as though the member had retired on the date of death and elected a 100% joint and survivor form of benefit, naming the *designated beneficiary* as the beneficiary.

Proposed Law

HB 23 provides that if any vested terminated member dies before selecting a benefit form, or any active contributing member who is eligible for retirement dies before retiring, the member's *surviving eligible spouse* shall automatically be paid benefits as though the member had retired on the date of death and elected a 100% joint and survivor form of benefit, naming the spouse as the beneficiary. In the event the member has no surviving eligible spouse, the designated beneficiary will be the beneficiary.

Implications of the Proposed Changes

HB 23 makes the *surviving eligible spouse* the automatic recipient of the benefits payable after the death of a retirement-eligible FRS member rather than the designated beneficiary.

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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

The actuarial cost of HB 23 associated with the retirement systems is estimated to be a small increase. Our analysis is summarized below.

HB 23 will change the automatic death benefit recipient, under some circumstances, from the designated beneficiary to the member's surviving spouse. Many members have already designated their spouse as the recipient of the death benefit with such a spouse remaining alive and married to the member until he experiences a pre-retirement death. Others, however, may incur death with a designated beneficiary who is not their spouse. Providing the death benefit to a designated beneficiary who is not the surviving spouse may lead to an increase in FRS costs or a decrease depending on the age and gender of the designated beneficiary compared to the surviving spouse.

Without age and gender data for all currently designated beneficiaries, the actuarial cost of this proposed bill on these existing active members of FRS cannot be determined with any certainty. It is estimated, however, that the net effect is not a material actuarial cost or savings. In addition, there could be a situation where a member's designated beneficiary has predeceased the member, and the member has a surviving eligible spouse. In that case the pre-retirement benefit would be paid to the surviving eligible spouse instead of being forfeited. This would result in a small increase in actuarial cost.

The opportunity for anti-selection costs appears to be very minimal. It would require a very astute member, spouse, and designated beneficiary to figure out a way to game the retirement system.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of HB 23 associated with OPEB, including retiree health insurance premiums, is estimated to be \$0. Our analysis is summarized below.

The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers is not affected by the change in the pension beneficiary relating to the death of a member before retirement.

3. Other Government Entities

The actuarial cost of HB 23 associated with government entities other than those identified in HB 23, is estimated to be \$0. See Section II; Subsection C for more information.

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

Unless indicated otherwise, the actuarial note for HB 23 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 23 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), 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 23 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

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

1. Narrative

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

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“Decrease” or a negative number. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

Fiscal costs for the Retirement Systems and Their Sponsors: Table A

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	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	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	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

The effects of HB 23 on retirement related fiscal costs and revenues during the five year measurement period are shown in Table A and Items 2 and 3 below.

2. Expenditures

- a. FRS expenditures (Agy Self-Generated) for death benefit payments are expected to increase. The amount of increase will be small to negligible.
- b. Expenditures from Local Funds are expected to increase to the extent that FRS contribution requirements increase. The increase is expected to be small to negligible.

3. Revenues

- a. FRS revenues (Agy Self-Generated) are expected to increase to the extent that the FRS employer contribution requirements increase. The increase is expected to be small to negligible.

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

1. Narrative

Table B shows the estimated fiscal impact of HB 23 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entities sponsoring OPEB programs. 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.

The effects on OPEB related fiscal costs and revenues during the five year measurement period are shown below in Table B.

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

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**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 23 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 effects on fiscal costs and revenues related to other government entities during the five year measurement period are shown in Table C and Items 2 and 3 below.

2. Expenditures:

There is no anticipated indirect material effect on the expenditures of local governmental entities (e.g., fire districts) as a result of this measure. Based on information from the Firefighters’ Retirement System, Louisiana State Firemen’s Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the expenditures of other governmental entities.

3. Revenues:

There is no anticipated indirect material effect on the revenues of local governmental entities (e.g., fire districts) as a result of this measure. Based on information from the Firefighters’ Retirement System, Louisiana State Firemen’s Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the revenues of other governmental entities.

**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 23 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, 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.

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Total Fiscal Cost: Table D (Cumulative Costs from Tables A, 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	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	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	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

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 23 contains a retirement system benefit provision having an actuarial cost.

The actuarial value of the death benefit for some members of FRS will be greater under HB 23 than it would have been without its enactment.

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

The information presented below is based on information contained in Table D 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