2019 REGULAR SESSION
ACTUARIAL NOTE HB 29

House Bill 29 HLS 19RS-327 **Engrossed** **Author: Representative Johnson** **Date: April 26, 2019** **LLA Note HB 29.02** **Organizations Affected:** **Louisiana State Employees' Retirement System** **EG INCREASE APV**	**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.** **James J. Rizzo, ASA, MAAA** **Senior Consultant & Actuary** **Gabriel, Roeder, Smith & Company, Actuary for the Legislative Auditor**

Bill Header: RETIREMENT/STATE EMPS: Provides relative to the payment of health insurance premiums for certain retirees of the Hazardous Duty Services Plan in the Louisiana State Employees' Retirement System

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net actuarial costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. Net 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 ***net 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 (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		Increase
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post-employment Benefits	Increase	0
Other Government Entities	Increase	0
Total	Increase	Increase

This bill does not increase retirement benefits. Any increase in accrued liabilities resulting from accelerated retirements will be amortized along with other actuarial gains or losses.

Bill Information

Current Law

Current law establishes the Hazardous Duty Services Plan within the Louisiana State Employees' Retirement System (LASERS). This plan is mandatory for new hires in certain positions after January 1, 2011, and optional for employees who would have been eligible to be in the plan had they been hired after January 1, 2011.

The retirement eligibility under the Hazardous Duty Services Plan is generally earlier than for LASERS Rank and File employees and is as follows:

1. 25 years or more of service, at any age.
2. 12 years or more of service, at age 55 or thereafter.
3. 20 years of service at any age, actuarially reduced from age 55.

Current law establishes the proportion of health insurance premiums that most active and retired employees are to pay. These proportions depend on variables such as when an employee was hired, how long an employee has been covered in the plan managed by the Office of Group Benefits (OGB), and whether the employee is eligible for Medicare. The state pays a certain percentage of the premium and the employee or retiree pay the difference.

Current law requires Hazardous Duty members to pay a higher premium to OGB for early retiree health insurance coverage than Rank and File members.

Current law also requires members who transferred into the Hazardous Duty Services Plan, and who retired under provisions that allowed them to collect a retirement benefit earlier than they otherwise would, to pay the increased amount of their health insurance premiums, and to have such amount deducted from their monthly benefits and remitted to OGB on their behalf.

Proposed Law

Proposed law removes the requirement for the increased health insurance premium amount to be deducted from monthly benefits payable to such retirees and requires the health insurance premiums for these Hazardous Duty Services Plan members to be calculated according to R.S.42:851, the same as all other retirees.

Implications of the Proposed Changes

Members who transfer into the Hazardous Duty Services Plan from another plan, and who retire earlier than they would have been able to under the plan they left, will not be required to pay in the higher employer health insurance premiums resulting from such earlier retirement.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be an increase, although not considered significant. The actuary's analysis is summarized below.

HB 29 decreases the proportion of the health insurance premiums paid by certain retirees (current and future).

The proposed law is not expected to have an actuarial cost to the retirement system for current retirees affected. For example, according to OGB there are currently 45 early retirees affected by this proposed law. Currently, they are paying $780.00 per month for the Magnolia Open Access Plan for enrollee only coverage. Under the proposed law, they would pay $175.56 (i.e, no higher than the rate paid by active employees). That is a significant reduction in pension deductions. However, since the total pension benefit does not change, the proposed law has no effect on the retirement system's costs and liabilities.

However, it may have an effect on the retirement behavior to the extent that current actives are affected by the proposed legislation. Such a significant decrease in pension deductions might induce eligible members to retire earlier instead waiting until otherwise eligible when the premium deduction is much less. While not directly affecting the pension benefit, this secular effect on earlier retirements is expected to have an increasing effect on the retirement system's costs and liabilities, to the extent that current active members are affected by this proposed law and to the extent that it alters their retirement patterns emerging over time. If currently active members are affected by this proposed law and retire earlier than they would under current law, more benefits would be payable to such members over their lifetimes, which increase the actuarial cost of the system.

Any active members affected by this change would be limited in number because the Hazardous Duty Services Plan has been effective as of January 1, 2011, and the largest group of members transferring into this Plan was the group who would otherwise have been eligible except for having been employed before that date. For the most part, those members should already have transferred into this Plan.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be an increase. The actuary's analysis is summarized below.

The proposed law shifts costs from certain affected retirees (current and future) to the state and its agencies. OPEB costs for retirees increase immediately under the proposed law, while they begin increasing later for affected current active employees who elect to retire earlier than otherwise due to: (a) a direct cost shifting of premiums from such retirees to the state and (b) collecting OPEB benefits sooner and for a longer period of time.

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

A detailed review of the actuarial data, methods or assumptions applicable to these retirement systems was not made or required for the preparation of this Actuarial Note. Certain information presented in the Actuarial Analysis section, above, was obtained from the Office of Group Benefits.

C. Actuarial Caveat
(Prepared by LLA)

There is nothing in the proposed legislation 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 (annual) costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings incurred by other government entities (Table C). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems. The total effect of HB 29 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 "Decrease" or a negative number.

Retirement System Fiscal Cost: Table A

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	$ 0	Increase	Increase	Increase	Increase	Increase
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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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 proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from LASERS (Agy Self-Generated) would increase for additional benefits payable as a result of HB 29 as affected members retire earlier than otherwise. This might begin immediately upon passage, or more certainly in the following years.
   b. Expenditures from the General Fund would increase when employer contribution requirements increase to reflect the earlier retirements of affected members as a result of HB 29.

3. Revenues:

   a. LASERS revenues (Agy Self-Generated) would increase when the system receives the higher employer contributions that reflect the earlier retirements of affected members as a result of HB 29.

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

1. Narrative

Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit 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.

OPEB Fiscal Cost: Table B

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	Increase	Increase	Increase	Increase	Increase	Increase
Federal Funds	Increase	Increase	Increase	Increase	Increase	Increase
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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 proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures from the state will increase to the extent that active employees are affected by the proposed law and to the extent some of them would retire earlier under HB 29 than under current law. In those cases, state-paid insurance premiums would increase due to the cost shifting from certain retirees to the state and its agencies.
   b. LASERS staff members are generally recognized in OGB Expenditures from LASERS (Agy Self Generated), but are not in the Hazardous Duty sub-plan. However, there are likely to be affected members employed by agencies that are funded in whole or in part by Self Generated income.
   c. In addition, there are likely to be affected members employed by agencies that are funded in whole or in part by Statutorily Dedicated Funds and Federal Funds.

3. Revenues:

   HB 29 will have no fiscal impact on revenue relative to OPEB.

C. <u>Estimated Fiscal Impact: Other Government Entities (other than the retirement systems or OPEB)</u>
(Prepared by Tanesha Morgan, Legislative Fiscal Office)

1. Narrative

   Proposed law removes the provision that certain retirees of the LASERS Hazardous Duty Services Plan pay a premium cost for the employee's share of OGB health insurance.

Fiscal Costs for Other Government Entities: Table C

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 Year Total
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	Increase	Increase	Increase	Increase	Increase	Increase
Federal Funds	Increase	Increase	Increase	Increase	Increase	Increase
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	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

HB 29 will have the following effects on fiscal costs and revenues related to other government entities during the five year measurement period.

2. Expenditures:

This measure is anticipated to increase group insurance expenses for agencies that employ certain members of the LASERS Hazardous Duty Services Plan who transferred service credit into the plan and who retire after July 1, 2019. This increase is due to the employer paying a greater employer share of the retiree's insurance cost. The amount of the increase is indeterminable, but expected to be minimal over the next five years, and is dependent on the number of years the employee participated in group insurance prior to retirement and the group insurance plan the employee selects upon retirement.

Currently, certain retirees of the Hazardous Duty Services Plan pay a higher percentage for the employee share of OGB health insurance costs when compared to most state retirees. The bill eliminates the higher percentage for these retirees, which results in the agencies paying a greater employer share of the retiree's insurance cost.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

D. <u>Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities</u>
(Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of the proposed legislation 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.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	Increase	Increase	Increase	Increase	Increase	Increase
Federal Funds	Increase	Increase	Increase	Increase	Increase	Increase
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**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

<u>Credentials of the Signatory Staff:</u>

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which is currently serving as the actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

<u>Actuarial Disclosure: Risks Associated with Measuring Costs</u>

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 other than assumed, resulting in actual future accrued liability and contributions differing from expected.

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.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

[X] HB 29 contains a retirement system benefit provision having an actuarial cost.

Some members of the Louisiana State Employees' Retirement System may receive a larger benefit with the enactment of HB 29 than what they would have received without HB 29, due to its inducement of certain affected members to retire earlier.

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 2019 regular session.

		Senate			House
[ ]	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**	[ ]	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ $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 ≥ $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 ≥ $500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**