2020 REGULAR SESSION
ACTUARIAL NOTE SB 513

Senate Bill 513 SLS 20RS-221 **Original** **Author: Senator Reese** **Date: April 28, 2020** **LLA Note SB 513.01** **Organizations Affected:** **Parochial Employees' Retirement System** **OR INCREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). 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.** **Lowell P. Good, ASA, EA, MAAA** **Actuarial Services Manager** **James J. Rizzo, ASA, EA, MAAA** **Senior Consultant & Actuary** **Gabriel, Roeder, Smith & Company**

Bill Header: PAROCHIAL EMPLOYEES RET: Provides relative to rehiring of retirees. (8/1/20)

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 local and state 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)		0
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Increase	Increase
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Increase	0
State Government Entities	0	0
Total	Increase	Increase

Bill Information

Current Law

Current law provides that a retiree of the Parochial Employees Retirement System (PERS) may be temporarily employed by an employer participating in the plan, subject to certain limitations.

a) If a retiree is under age 65 or has not been retired at least three years, he may be employed no more than 480 hours in a calendar year.

b) If a retiree is age 65 or older and has been retired at least three years, he may be employed no more than 1,040 hours in a calendar year.

However, if the retiree is employed longer than the maximum hours stated above, his retirement benefit will be reduced by the amount earned after the allowed number of hours.

Current law provides that:

a) If a retired member, who is otherwise eligible, becomes permanently employed by an employer participating in PERS, the retired member and the employer will immediately notify the board of the retiree's date of employment, the amount of his monthly salary, any changes in salary, number of hours employed per week, estimated duration of employment, and date of termination of employment. However, the current law does not apply to retirees who are elected to office and are prohibited from joining PERS under Article X, Section 29.1(A) of the Constitution of Louisiana.

b) At the time a retired member returns to permanent employment, the benefit of the retiree will be suspended, and he will be considered as returning to active service and employee and employer contributions will resume.

Current law provides that upon subsequent termination of employment of a retired contributing member, the retired contributing member will begin receiving his original retirement benefit and will receive an additional benefit based on his additional service and the compensation earned during the period of additional service.

Current law provides that if a retired member of PERS is subsequently elected to an office covered by PERS, sixty days after taking the oath of office his monthly retirement benefit will be reduced by the amount of his monthly earnings.

Proposed Law

SB 513 provides that in a parish with a population of no more than fifty thousand, according to the latest federal decennial census, any retiree of PERS who has been retired from service for at least one year and who returns to active service in a critical shortage position will not have his retirement benefit suspended during his reemployment. A retiree will not be allowed to return to active service in a full-time position covered by the provisions of the proposed bill prior to the lapse of twelve months after the effective date of his retirement.

SB 513 provides that no member of PERS who retires based on a disability will return to service pursuant to the provisions of SB 513. Disability retirees will be governed by the provisions of the current law applicable to disability retirees.

SB 513 provides that during the period of his return to active service, the reemployed retiree and his employer will make contributions to PERS. However, the reemployed retiree will receive no additional service credit and will not accrue any additional benefits in PERS. After termination of active service and upon application therefor, the retiree will be refunded the employee contributions paid during reemployment. The refund will be without interest. PERS will retain all interest and employer contributions.

SB 513 provides that the employing agency that elects to reemploy a retiree will certify to PERS that a critical shortage of skilled employees exists in the parish of such employer. The retiree who is employed will not receive a benefit during the period of his reemployment unless and until the board of trustees of PERS has received certification that a critical shortage exists. Prior to making such certification for any full-time critical shortage position, the employer will cause to be advertised in the official journal of the employer's governing authority, on two separate occasions, notice that a critical shortage of skilled employees exists and the positions sought to be filled. Additionally, the employer will cause notice to be posted at the career development office, or similar such entity, of every post-secondary institution and the regional office of the Louisiana Workforce Commission, within a one hundred twenty-mile radius of the employer's governing authority. If a qualified applicant who is not a retiree applies for an advertised position, such person will be hired before any qualified retiree is employed, unless fewer than three applicants have applied for the position each of whom is qualified for the critical shortage position being filled.

Implications of the Proposed Changes

SB 513 will allow a retiree who has been retired from service for at least one year and who returns to active service in a critical shortage position in a parish with a population of fifty thousand or less (according to the latest federal decennial census) to be reemployed without having his retirement benefit suspended during his reemployment.

Both he and his employer will be required to make contributions during the reemployment period. The member’s contributions will be returned when he leaves reemployment; however, the employer contributions will remain in the fund.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

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 in cost. The actuary’s analysis is summarized below.

SB 513 allows a retiree in a parish with a population of no more than fifty thousand to return to work in a critical shortage position without a suspension of benefits. According to the 2010 federal decennial census there are 41 parishes (out of a total of 64) with a population of no more than fifty thousand.

The situation under the proposed law can be viewed from different perspectives:

Consider a retiree who *would have returned to work* under the current law and had his benefits suspended or reduced. Contributions might have been required from both the employer and the employee, depending upon whether or not he becomes permanently employed. He might also have received an additional benefit based on his additional service and the compensation earned during the period of additional service. If he returns to work under the proposed law, he will continue to receive his benefits, so PERS may pay out more benefits during the reemployment period. Contributions will be required from both the employer and the employee, but employee contributions will be refunded.

Alternatively, consider a retiree who *would not have returned to work* under the current law because his benefits may be suspended or reduced. If, under the proposed law, he returns to work, then his benefit is the same as if he had not returned to work, so there is no change in his benefit payments.

More benefits may be paid to rehired retirees during the reemployment period, since under the current law either the full amount of their benefits or a portion of their benefits may be suspended. The additional benefits paid during the reemployment period may be somewhat offset by lower benefits paid after the reemployment period, since there will be no additional benefits earned during the reemployment period. The net effect of SB 513 may be an increase in future benefits with increased actuarial costs.

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 $0. The actuary's analysis is summarized below.

The total claims expected to be incurred by members insured through their respective employers' health insurance programs remains approximately the same regardless of whether a PERS retiree is reemployed into active status or remains in retired status.

When a retired PERS member returns to active employment, depending on the number of hours worked or his classification and status he may or may not become covered for health insurance as an active employee.

If he is covered as an active employee under his employer's health insurance program, he is no longer receiving retiree health subsidies. In such a case, the OPEB costs and liabilities are decreased to reflect the time he will be expected to remain employed until his subsequent re-retirement. This has a decreasing effect on the OPEB costs and liabilities. However, if the re-employed retiree is covered as an active employee again, the employer share of the active member health insurance costs would be paid, causing an increasing effect, compared to not hiring anyone or compared to hiring a younger new employee.

Many such re-hired retirees may not work enough hours or may not be in status categories to be re-classified as active employees again for health insurance purposes. For these employees, there would be no impact of the proposed bill on the OPEB liability.

Each employer participating in PERS may sponsor its own health insurance program with varying eligibility re-employment conditions. Furthermore, each such employer may or may not provide direct subsidies to retiring PERS members, may not even permit extended retiree coverage (OPEB), or may provide extended coverage at a higher premium than charged for active employees. No data is readily available for the 41 affected parishes as to their policies and levels of subsidies, if any, for retiree health insurance coverage. Accordingly, it cannot be determined if the proposed bill has a modest effect or no effect on OPEB.

Therefore, on balance, SB 513 is considered not to have any material effect on OPEB costs and liabilities.

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

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (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. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

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 IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

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	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

    a. PERS expenditures (Agy Self Generated) will increase under SB 513 because PERS will distribute more in benefits each year under SB 513 than it will under current law.

    b. PERS may incur administrative costs to make minor software modifications to existing computer programs to identify members that are rehired under this measure. These costs are negligible and are anticipated to be absorbed through the agency's existing budget.

    c. Expenditures from Local Funds will increase under SB 513 because employers will contribute more per year to PERS with the enactment of SB 513 than would have been contributed under current law.

3. Revenues:

    PERS revenues (Agy Self Generated) will increase each year if SB 513 is enacted because employers and reemployed retirees will contribute more per year to PERS under SB 513 than they would have contributed under current law.

B. <u>Estimated Fiscal Impact – OPEB</u>
(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	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   Cannot be measured without additional data for the 41 parishes.

3. Revenues:

   Cannot be measured without additional data for the 41 parishes.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal impact of the proposed legislation on such local government entities. 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.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 fiscal costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

No measurable effect.

3. Revenues:

No measurable effect.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal costs, cost savings, and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by John Carpenter, Legislative Fiscal Officer)

1. Narrative

Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal impact of the proposed legislation on such state government entities. 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.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 fiscal costs and revenues related to state government entities during the five year measurement period.

2. Expenditures:

N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

3. Revenues:

N/A - This bill only impacts local government and therefore, has no state impact. The LFO does not review local government bills.

Credentials of the Signatory Staff:

Lowell P. Good is 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of 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.

Actuarial Disclosure: Risks Associated with Measuring Costs

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 timely receipt of 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] SB 513 contains a retirement system benefit provision having an actuarial cost.

Some members of the Parochial Employees' Retirement System could receive a larger benefit with the enactment of SB 513 than what they would have received without SB 513.

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

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2020 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**