2021 REGULAR SESSION
ACTUARIAL NOTE SB 23

<table>
<tr><td rowspan="2">Senate Bill 23 SLS 21RS-92
Original

Author: Senators Fesi and Johns
Date: April 1, 2021
LLA Note SB 23.01

Organizations Affected:
Louisiana State Police Retirement System

OR INCREASE APV</td><td colspan="2">This Note has been prepared by the Actuary for 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.</td></tr>
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Bill Header: STATE POLICE RETIREMENT: Provides certain enhanced survivor benefits and insurance coverage for the spouses and children of members killed in the line of duty. (2/3 - CA10s29(F)) (6/30/21)

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 Present Values pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***[1]. 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 Present Values Pertaining to:		**Net Actuarial Present Values**
The Retirement Systems		Increase
Other Post-employment Benefits (OPEB)		Increase
Total		Increase
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems – Agy Self Generated	Increase	Increase
Other Post-employment Benefits (OPEB)	Increase	Increase
Local Government Entities	0	0
State Government Entities	Increase	0
Total	Increase	Increase

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

Bill Information

This bill addresses two distinct provisions, for two distinct groups of survivors – one relating to OGB health care premiums for survivors of members who were killed in the line of duty; and the other relating to Louisiana State Police Retirement System (LSPRS) pension benefits paid to survivors of members who were killed **by an intentional act of violence** in the line of duty (or from immediate effects of an injury received by an intentional act of violence in the line of duty).

Current Law

Current law provides that the Office of Group Benefits (OGB) promulgates all the rules necessary to carry out the provisions relative to the retiree health care premium subsidy of an individual who participates in the OGB health care program.

Any person who is eligible for and receives disability retirement benefits from a retirement system created under the laws of this state receives the same retiree health care premium subsidy (i.e., a state contribution of 75% of the premium), as a retiree who has participated for 20 or more years in the OGB health care program, provided the disabled member has participated in health care programs sponsored by the OGB for the number of years sufficient to earn disability retirement benefits.

[1] **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note "Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution").

Current law also provides survivor benefits for law enforcement officers of the office of state police who are members of the LSPRS and who were killed by an intentional act of violence in the line of duty (or from immediate effects of an injury received by an intentional act of violence in the line of duty). For members hired on or before December 31, 2010, the benefit payable to the surviving spouse is equal to 100% of the member's salary at the time of death, provided the surviving spouse was married to the decedent at the time of the event which resulted in the officer's death. If there is no surviving spouse, the surviving minor children receive the benefit. For members hired on or after January 1, 2011, the benefit is equal to 100% of the member's salary at the time of death. The benefit is shared equally by the surviving spouse and children.

Under current law, in certain circumstances, beneficiaries (in addition to retirees) are eligible for gain-sharing cost of living adjustments (COLA) under the statutory template rules relating to the Experience Account. Two conditions would need to be satisfied for beneficiaries to receive a gain-sharing COLA: (a) a COLA bill under the statutory template or outside the statutory template would need to be passed by the Legislature and signed by the Governor and (b) the beneficiary's associated member would need to have been at least 60 at the COLA's effective date if he had not died.

Proposed Law

Similar to the health care premium subsidy that current law provides for disabled members, SB 23 provides that in the case of a member who is killed in the line of duty, a spouse or a child who is eligible to receive survivor retirement benefits from LSPRS will be eligible to participate in the OGB health care program and receive the same health care premium subsidy (i.e., a state contribution of 75% of the premium) as a retiree who has participated for 20 or more years in the OGB health care program, provided the deceased member had participated in health care programs sponsored by the OGB for the number of years sufficient to earn survivor benefits at the time of his death.

A spouse or child who does not meet the qualifications for health care premium subsidy coverage pursuant to SB 23 due to the date of death of the member occurring before June 30, 2021 will have the option to select coverage no later than December 31, 2021.

SB 23 also provides that beginning in the Fiscal Year 2021-2022 and in each year thereafter, the survivor benefit payable on behalf of a members killed by an intentional act of violence in the line of duty (or from immediate effects of an injury received by an intentional act of violence in the line of duty) will, on the anniversary of the officer's death, be increased by three percent until the benefit equals the maximum of the officer's paygrade for his classification under the pay plan that applied to the officer on his date of death.

Implications of the Proposed Changes

SB 23 will provide subsidized health care insurance coverage, through the OGB, for the spouses and children of members killed in the line of duty in addition to the current law's subsidies for disabled members.

SB 23 will also provide for an annual increase of 3% for the survivor benefit, subject to the maximum amount an officer can earn within his rank at the time of his death, in the case of a death by an intentional act of violence in the line of duty (or from immediate effects of an injury received by an intentional act of violence in the line of duty).

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 present value 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 23 will allow the spouses and children of members killed in the line of duty to receive subsidized health care insurance coverage. This portion of the bill does not have any effect on the retirement benefits paid from LPSRS.

SB 23 also provides annual increases for the survivor benefits payable when an officer dies by an intentional act of violence in the line of duty (or from immediate effects of an injury received by an intentional act of violence in the line of duty). The benefit will be increased annually by three percent until the benefit equals the maximum of the officer's paygrade for his classification under the pay plan that applied to the officer on his date of death. The LSPRS actuary has estimated the cost of the annual benefit increase to the three survivors currently affected by SB 23 to be approximately $241,000, which represents about a 14.3% increase in the present value of future benefits for these three survivors.

This identifiable and material total actuarial cost would be amortized over 10 years in compliance with the Article X Section 29(F) of the Constitutional, thereby increasing the total contribution from all participating employers by approximately $35,000 per year for 10 years beginning in the 2022-23 contribution year. The long-term impact will depend on the number of future survivors who will be eligible for the annual increase in the survivor benefit, with the cost of SB 23 for future qualifying survivors amortized along with all other actuarial gains or losses for each such year.

Nothing in the proposed bill prohibits such surviving spouses and children from receiving gain-sharing COLAs if otherwise eligible, in addition to the three percent increase discussed herein.

The net actuarial present value of future benefits will therefore increase with the enactment of SB 23 since greater survivor benefits are expected to be paid.

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

The liability for post-retirement medical insurance subsidies provided by the Office of Group Benefits to spouses and children of members killed in the line of duty will increase since they will be eligible to receive subsidized health care insurance coverage.

It is also possible that more surviving spouses and children will request medical coverage if the premiums are subsidized, thereby increasing the member portion of the premiums collected by the State, but not sufficient to offset the increase in State-funded premiums.

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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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	0	0	0	0	0
Annual Total	Increase	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 in 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. Expenditures from LSPRS (Agy Self-Generated) are expected to increase since larger benefits will be paid to some surviving spouses and children.

   b. Expenditures from the State General Fund would increase to the extent that the LSPRS employer contribution requirements increase to finance the additional benefits payable to the surviving spouses and children.

3. Revenues:

LSPRS revenues (Agy Self-Generated) would increase because employer contribution requirements will increase to finance the additional benefits payable to the surviving spouses and children.

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	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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	Increase	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 OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

Expenditures from the State General Fund will increase since the state-paid health care insurance premiums would increase due to the subsidized health care insurance coverage provided through the OGB to the eligible spouses and children of members killed in the line of duty.

3. Revenues:

Revenues to the State General Fund will increase if more survivors elect coverage under the post-retirement medical plan and pay the member portion.

III. <u>FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]</u>

This section of the actuarial note pertains to annual fiscal costs (savings) relating to administrative expenditures 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 administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost 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	2021-22	2022-23	2032-24	2024-25	2025-26	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	2021-22	2022-23	2032-24	2024-25	2025-26	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 administrative costs and revenues related to local government entities during the five year measurement period.

2. Expenditures:

N/A - This bill only impacts state government, and therefore, has no local government impact. The Local Government Services section of the LLA does not review state government bills.

3. Revenues:

N/A - This bill only impacts state government, and therefore, has no local government impact. The Local Government Services section of the LLA does not review state government bills.

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

This section of the actuarial note pertains to annual fiscal cost (savings) relating to administrative expenditures 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 Chris Keaton, Legislative Fiscal Officer)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost 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	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	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:

   Other than the impact on employer contribution rates and OPEB which is already reflected in Tables A and B above, there is no anticipated direct material effect on governmental expenditures as a result of this measure.

3. Revenues:

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

Credentials of the Signatory Staff:

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have 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 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] SB 23 contains a retirement system benefit provision having an actuarial cost.

Some members (surviving beneficiaries) of the Louisiana State Police Retirement System could receive a larger benefit with the enactment of SB 23 than what they would have received without SB 23.

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 2021 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**