

**OFFICE OF LEGISLATIVE AUDITOR
2026 REGULAR SESSION
ACTUARIAL NOTE**

House Bill 49 HLS 26RS-318 Original Author: Bacala LLA Note HB 49.01	Date: March 9, 2026 Organizations Affected: FRS, MPERS OR SEE ACTUARIAL NOTE APV
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Bill Header: RETIREMENT/STATEWIDE SYS: Provides relative to the Municipal Police Employees' Retirement System and the Firefighters' Retirement System

Purpose of Bill: Proposed law 1) removes the ability for employees hired on or after January 1, 2027 who are covered by Social Security to opt-out of participation in the Firefighters' Retirement System (FRS) and the Municipal Police Employees' Retirement System (MPERS) and 2) changes the provisions for both systems that result in increased unfunded accrued liability payments for employers who experience a partial dissolution.

Summary of Impact¹: The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

Proposed law is not expected to have an immediate impact on the *actuarial present value of expected future benefits and administrative expenses* incurred by the retirement systems. Over the long term, proposed law is expected to increase the *actuarial present value of expected future benefits and administrative expenses* incurred by the retirement systems, primarily because more individuals will participate than under present law. A more detailed explanation can be found in Section I: Actuarial Impact on Retirement Systems.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation can be found in Section II: Fiscal Impact on Retirement Systems.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
The Retirement Systems	\$ 0	See Section II
Local Government Entities	0	0
State Government Entities	<u>See Section II</u>	<u>0</u>
Total	See Section II	See Section II

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: Fiscal Impact on Local Government Entities and Section IV: Fiscal Impact on State Government Entities.

Five Year Net Fiscal Costs Pertaining to:	<u>Expenditures</u>	<u>Revenues</u>
Local Government Entities	See Section III	\$ 0
State Government Entities	<u>0</u>	<u>0</u>
Total	See Section III	\$ 0

¹ This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "Information Pertaining to La. Const. Art. X, §29(F)").

<p>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.</p>	 Kenneth J. "Kenny" Herbold, ASA, EA, MAAA Director of Actuarial Services Louisiana Legislative Auditor
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I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

Proposed law 1) removes the ability for employees hired on or after January 1, 2027 who are covered by Social Security to opt-out of participation in FRS and MPERS and 2) changes the provisions for both systems that result in increased unfunded accrued liability payments for employers who experience a partial dissolution.

1. Under present law, individuals whose employer participates in Social Security may elect to not participate in FRS or MPERS. Proposed law would remove this option for those hired after December 31, 2026.

FRS has virtually no employees who take advantage of this option so will not generally be impacted.

MPERS has historically had a number of small employers whose employees have taken advantage of this option. MPERS is currently involved in a number of lawsuits where they believe the process to affect these opt-outs has not been properly handled by the employers. This has resulted in material administrative and legal costs to attempt to monitor, review, and in some cases, recoup unpaid contributions when an employee should have legally been participating in the plan but was not.

From an actuarial perspective, this will result in more participants participating in MPERS, and therefore will increase total present value of expected future benefits. However, this will also result in increased contributions associated with those participants to cover the cost of their benefit. Employer contributions are apportioned across all participating employers as a percentage of the salary of participating employees, but not all parts of that contribution vary based on the number of participating employees or total payroll (e.g. certain administrative expenses and the unfunded accrued liability amortization payment). Therefore, these costs will shift, to some extent, from existing employers to employers whose employees previously opted out, likely resulting in a slight overall decrease in employer contribution rate. This concept is discussed in more detail in item 2.

2. Retirement contributions consist of 3 primary parts. The cost of the benefit for an active participant attributable to service worked during the current fiscal year (normal cost), if not fully funded, a payment to fund benefits attributable to service worked in prior fiscal years (UAL amortization payment), and a contribution to fund future permanent benefit increases.

The UAL amortization payment is calculated as a specified dollar amount and is apportioned across all participating employers as a percentage of the salary of participating employees. Therefore, the total UAL payment in a given year does not change based on the number of participants, or the total payroll. When most employers have a relatively consistent level of employment, from both the number of employees and their total payroll, this approach results in each employer paying the approximate benefit cost of their employees over time. However, when a large shift in demographics occur, particularly from a large drop in total employees at a single employer, the burden of paying that UAL shifts to other employers in the system. Therefore, under present law, an employer who experiences a “large” decrease on their participating population (i.e. a partial dissolution) is required to pay a portion of the unfunded accrued liability (UAL) in excess of that included in the employer contribution rate paid by all employers.

From an actuarial perspective, this makes sense because a portion of the UAL can be reasonably, if not directly, attributed to their prior employees. Under present law, a partial dissolution is defined as the smaller of,

- a. A 30% reduction in participating employees in the June 30 actuarial valuation, measured from the June 30 actuarial valuation of the prior year, but not less than 2 people for MPERS or 3 people for FRS, or the total number of employees is zero, or
- b. A reduction in participating employees in the June 30 actuarial valuation, measured from the June 30 actuarial valuation of the prior year of at least 50 people.

Proposed law would change this measurement from a year over year calculation to one that compares the number of participating employees in the June 30 actuarial of a given year to the rolling average of the number of participating employees in the 3 prior June 30 actuarial valuations (with a transition period for the June 30, 2026 measurement that only includes the 2 prior most recent actuarial valuations).

In addition, proposed law would increase the minimum number of employees to trigger a partial dissolution for MPERS from 2 to 3 and provides for a reduction in the partial dissolution payments for employers whose participating employee count increases in later years.

The impact to the retirement systems is effectively zero, because as noted above, the total UAL payment in a given year does not change based on the number of participants, or the total payroll. However, how much a given employer pays could change. In general, it is expected that partial dissolution payments would be less likely to occur and have the ability to decrease over time if staffing levels return to historical averages quickly. For small employers, a single year swing in total employees is significantly less likely to result in required payments. The same is true for larger employers, but also a reduction in workforce, either intentionally or due to difficulty in hiring, will generally take several years to manifest in partial dissolution payments and likely result in lower payments.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to annual fiscal costs (savings) associated with the retirement systems.

Fiscal costs or savings include only cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. 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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Table A: Retirement System Fiscal Cost

Expenditures	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self-Generated	See Below					
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	See Below					

Revenues	2026-27	2027-28	2028-29	2029-30	2030-31	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

Changes in employer contributions are reflected in the State General Fund and/or Local Fund expenditure lines above. The actual sources of funding (e.g., Federal Funds, State General Fund, etc.) may vary by employer and are not differentiated in the table.

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

1. Expenditures:

- a. Employer contributions (Local Funds) will increase as some employers will have more participants in the system who previously might have elected to opt-out of participation.
- b. MPERS has indicated the elimination of the ability to opt-out would reduce the administrative burden associated with reviewing and monitoring the opt-out mechanism (Agy Self-Generated).

2. Revenues:

Changes in employer contributions identified as changes in expenditures have corresponding changes in Agy Self-Generated revenue.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by local government entities other than those included in Section II.

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 Section II). Table B 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.

Table B: Fiscal Costs for Local Government Entities

Expenditures	2026-27	2027-28	2028-29	2029-30	2030-31	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	See Below					
Annual Total	See Below					

Revenues	2026-27	2027-28	2028-29	2029-30	2030-31	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					

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.

1. Expenditures:

To the extent municipalities are involved in lawsuits with MPERS related to the opt-out provisions, eliminating the ability for future employees to opt-out of MPERS participation could decrease administrative and legal costs.

2. Revenues:

The proposed legislation is not expected to have any additional effects on fiscal administrative revenues related to local government entities during the five-year measurement period, other than those outlined above.

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**IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)**

This section of the actuarial note pertains to annual fiscal costs (savings) related to administrative expenditures and revenue impacts incurred by state government entities other than those included in Section II.

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

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations presented herein, we may have utilized commercially available valuation software. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

There is nothing in the proposed legislation that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

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 at rates that differ from what was 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

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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.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

- This bill contains a retirement system benefit provision having an actuarial cost.

Some members of a retirement system, or their beneficiary, would receive a larger benefit with the enactment of this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2026 Regular Session.

Senate

- 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
- 13.5.2 Applies to Senate or House Instruments
If an annual tax or fee change \geq \$500,000, then bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

House

- 6.8F Applies to Senate or House Instruments
If an annual General Fund fiscal cost \geq \$100,000, then bill is dual referred to:
Dual Referral: Appropriations
- 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes \geq \$500,000, then bill is dual referred to:
Dual Referral: Ways and Means