LOUISIANA LEGISLATIVE AUDITOR

OFFICE OF LEGISLATIVE AUDITOR
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ACTUARIAL NOTE

House Bill 31 HLS 26RS-508	**Date: April 29, 2026**
Reengrossed	**Organizations Affected: MPERS**
Author: Echols	
LLA Note HB 31.03	**RE SEE ACTUARIAL NOTE APV**

Bill Header: RETIREMENT/MUNICIPAL POL: Authorizes certain municipalities to terminate participation in the Municipal Police Employees' Retirement System

Purpose of Bill: Proposed law 1) permits any municipality with a population between 1,950 and 2,950 to elect to make an irrevocable election to terminate participation in the Municipal Police Employees' Retirement System (MPERS), 2) creates a Death and Disability Subplan within MPERS that provides in-service death and disabilities benefits only, and 3) permits any employer that participates in Social Security to a) elect to remove the ability for police officers to opt-out of participation in MPERS on an individual basis and b) have all of its police officers participate in the Death and Disability Subplan.

Summary of Impact[1]: 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 system. Over the long term, the ***actuarial present value of expected future benefits*** incurred by the retirement system is not expected to increase as much as it otherwise would. The impact on the employer contribution rate is less clear. 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:	**Expenditures**	**Revenues**
The Retirement Systems	See Section II	See Section II
Local Government Entities	See Section II	0
State Government Entities	0	0
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:	**Expenditures**	**Revenues**
Local Government Entities	See Section III	$ 0
State Government Entities	0	0
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)**").

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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

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.

1. Proposed law permits any municipality with a population between 1,950 and 2,950 to make an irrevocable election, no later than June 30, 2027, to terminate participation in MPERS for police officers who would otherwise be enrolled in MPERS, who are hired on or after the effective date of a termination resolution adopted by the municipality's governing authority. Municipalities that make this election, and do not subsequently elect to participate in the Death and Disability Subplan must provide death and disability coverage outside of MPERS and will be deemed to have fully dissolved its police department for purposes of the determination of dissolution payments.
2. Proposed law creates a new Death and Disability Subplan that provides death and disabilities benefits only.
3. Proposed law permits any employer that participates in Social Security to remove the ability for police officers to opt-out of participation in MPERS on an individual basis.
4. Proposed law permits any municipality that participates in Social Security to have all of its police officers participate in the Death and Disability Subplan.

Employer contributions to MPERS for the Hazardous Duty and Nonhazardous Duty Subplans consist of 3 primary parts.
1. The cost of the benefit for an active participant attributable to service worked during the current fiscal year (normal cost),
2. if not fully funded, a payment to fund benefits attributable to service worked in prior fiscal years (UAL amortization payment), and
3. a contribution to the Funding Deposit Account (FDA) to fund future cost of living adjustments (COLAs).

Normal cost and FDA contributions are only paid on actively participating employees. The UAL amortization payment is calculated as a specified dollar amount which, less any dissolution payments, is allocated 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. However, the amount a given employer will pay changes based on that employer's payroll in relation to the total payroll.

Opting Out of MPERS participation

To the extent a municipality elects to opt-out of participation in MPERS completely, it becomes subject to the full dissolution requirements. This requires an employer to make payments of the unfunded accrued liability (UAL) attributable to that employer as of the prior June 30, amortized over 15 years. However, current members of the plan would continue to participate so that employer would also be responsible for any UAL portion of the employer contribution for as long as they continue to have active members in the plan. We have identified 22 municipalities that, based on 2020 census information, have at least 1,950, but less than 2,950, residents. 15 of these municipalities participate in Social Security and could elect to participate in the Death and Disability Subplan. To the extent the remaining 7 make this election, an appropriate Social Security replacement plan, or electing to begin participating in Social Security, would be required under federal law. Regardless, a municipality electing to completely opt-out has limited actuarial or fiscal impact given the requirement to pay the full dissolution payment.

The Death and Disability Subplan

The Death and Disability Subplan has an employee contribution of 0% and an employer contribution rate not to exceed 5% and the cost of administering the plan, as of June 30, 2027. Effective June 30, 2028, the employer contribution rate appears to be capped at 5% in total, including administrative fees. The board and its actuary may set a lower rate in the future if it is determined the cost of the plan is less than 5%.

MPERS' actuary modeled various scenarios related to the benefits included in proposed law. The sensitivity analysis did not necessarily include the worst-case scenario but did include more conservative assumptions than for the current benefit structure. The individual normal cost rates ranged from 1% on the low end to 13.9% on the high end. This illustrates the relatively high variability in potential normal cost rates that could result once the actual population is known. To the extent the overall population is relatively young when they enter the plan, actual normal cost rates will tend towards the lower end of this range. The higher the average entry age, the higher the anticipated cost. This analysis is predicated on the assumption that only new hires will be covered by the Death and Disability Subplan and no employees with prior service credit will participate. To the extent that assumption is incorrect, normal cost rates would likely increase. This also illustrates that, at least in the near- to medium-term, the "cost" of the Death and Disability Subplan is likely to be higher than the 5% employer contribution cap.

To the extent a municipality elects to have its police officers participate in the Death and Disability Subplan, the total payroll over which the UAL payment is allocated would decrease, increasing the employer contribution rate for the remaining employers. Proposed law does not specify how current employees who are participating in MPERS will be impacted should a municipality elect to have all of its police officers participate in the new Subplan. We therefore assume that current members remain in the Hazardous Duty Subplan and only future hires will participate in the Death and Disability Subplan. Given that, total payroll would decrease, or not increase as much as it otherwise would, slowly as natural attrition of current police officers occurs and a given position moves from the Hazardous Duty Subplan to the Death and Disability Subplan. Therefore, the shift in employer contribution rate is likely to occur slowly over time. In addition, the present value of future benefits will not decrease, but it will not increase as much as it otherwise would.

According to MPERS website, there are 135 municipalities currently participating in Social Security. These municipalities had a total of 693 actively employed participants as of June 30, 2025, representing approximately 9.5% of total payroll.

Actuarial Impact

The actuarial present value of expected future benefits incurred by the retirement system is not expected to increase as much as it otherwise would as new police officers participate in the Death and Disability Subplan rather than the Hazardous Duty Subplan or are no longer covered by MPERS.

However, the impact on total contributions is less clear. Over the near term (5-10 years), the total employer contributions to MPERS will likely decrease as the normal cost and FDA portions of the employer contribution for the Hazardous Duty and Nonhazardous Duty Subplans will decrease on a dollar basis as the total payroll participating in these Subplans decreases with police officer positions shifting to the Death and Disability Subplan, or opting out completely. Further confusing any long-term projection is the way actuarial gains and losses in the Death and Disability Subplan are borne by the other Subplans. To the extent the Death and Disability Subplan has negative liability experience (i.e. the benefits cost more than projected), the UAL payment for the other Subplans will increase. However, to the extent the Death and Disability Subplan has positive actuarial experience and the expected cost drops below 5%, the employer contribution for the Death and Disability Subplan will decrease to reflect this expectation.

Regardless, the Insurance Premium Taxes (ITP) are projected to cover 99% of the employer normal cost for fiscal 2026. It is possible there will be a point at which the ITP is sufficient to cover more than the employer normal cost and will start offsetting a portion of the UAL payment as well, decreasing the employer contribution rate despite a decreasing payroll base or any subsidization. In addition, approximately 85% of the UAL is scheduled to be fully paid by fiscal 2035, at which point the UAL portion of the employer contribution rate for the Hazardous Duty and Nonhazardous Duty Subplans is projected to be 3.1% of 2026 payroll. Therefore, <u>over the long-term, given the use of ITP funds to offset the cost of the Hazardous Duty and Nonhazardous Duty subplans, contributions to the Death and Disability Subplan could ultimately be higher than the employer contribution for the other Subplans, resulting in an increase in total contributions to MPERS.</u>

<u>Other Considerations</u>

1. As noted above., proposed law does not specify how current employees who are participating in MPERS will be impacted should a municipality elect to have all of its employees participate in the Death and Disability Subplan. This analysis assumes members of the Hazardous Duty Subplan will remain members of the Hazardous Duty Subplan.
2. There are a number of outstanding questions with respect to how the Death and Disability Subplan would operate in practice, for example, how will service be credited should someone move between MPERS employers who participate in different subplans, how will service in the Death and Disability Subplan be considered in a reciprocal agreement with a different Louisiana public retirement system, how will retirees of one subplan be treated if hired by an MPERS employer participating in a different subplan, are benefits paid from the Death and Disability Subplan eligible for COLAs, how would such COLAs be funded, etc.
3. The required employer contribution for the Death and Disability Subplan is not entirely clear. It appears to be at 5% <u>and</u> the cost of administering the plan, set as of June 30, 2027, which we interpret to include a charge for administrative costs. However, effective June 30, 2028, the total contribution, inclusive of any potential administrative costs, appears to be no more than 5% in total.

II. <u>FISCAL IMPACT ON RETIREMENT SYSTEMS</u>

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.

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	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	See Below	See Below	See Below	See Below	See Below
Annual Total	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**	**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	See Below	See Below	See Below	See Below	See Below	See Below
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	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**	**See Below**

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:

   As more thoroughly explained in Section I,

   a. Normal cost contributions and the FDA contributions (local funds expenditures) will decrease, or not increase as much as they otherwise would, as police officers are replaced by non-participating police officers or police officers covered by the Death and Disability Subplan.
   b. The total amount of local funds expenditures that make up the UAL amortization payment will not be affected; however, municipalities that shift to the Death and Disability Subplan will pay less than they otherwise would while the remaining municipalities will pay more.

2. Revenues:

   Changes in retirement contributions identified as expenditures have corresponding changes in Agy Self-Generated revenues.

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.

To the extent a municipality elects to opt-out of participation in MPERS completely, non-retirement expenditures will increase to cover the cost of the required death and disability insurance coverage. In addition, any municipality that does not participate in Social Security will need to begin participating in Social Security or provide an alternative retirement benefit that meets the definition of a Social Security replacement plan.

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 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.

No members of a retirement system, or their beneficiary, could 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 ≥ $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 ≥ $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 ≥ $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 ≥ $500,000, then bill is dual referred to:
Dual Referral: Ways and Means