2011 REGULAR SESSION
ACTUARIAL NOTE HB 332

House Bill 332 HLS 11RS-409 Original **Author: Representative Kevin Pearson** **Date: May 18, 2011** **LLA Note HB 332.01** **Organizations Affected:** **Firefighters' Retirement System** **Municipal Employees' Retirement System** **Municipal Police Employees' Retirement System** **OR DECREASE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: **RETIREMENT/STATE-STWIDE:** Relative to the Municipal Employees' Retirement System (MERS), the Municipal Police Employees' Retirement System (MPERS), and the Firefighters' Retirement System (FRS), implements the recommendations of the Funding Review Panel by providing for board membership, benefit calculation, maintaining employer contribution rates at certain amounts, and employee contribution rates.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Actuarial Savings
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with administration or other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
Total	Decrease

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Inc/(Dec)	Inc/(Dec)	Inc/(Dec)	Inc/(Dec)	Inc/(Dec)
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Bill Information:

Provisions under current law and provisions under HB 332 are compared below.

Provisions of HB 332 Pertaining to the Funding Review Panel

Current Law	HB 332
The Funding Review Panel was commissioned to conduct a comprehensive review of benefit structures and actuarial funding associated with FRS, MPERS, and MERS. Duties of the Funding Review panel ceased on March 15, 2011.	The Funding Review Panel will be commissioned as a permanent body to conduct ongoing reviews of benefit structures and actuarial funding associated with FRS, MPERS, and MERS.

Provisions of HB 332 Pertaining to FRS

<table>
<tr><th>Topic</th><th>Current Law</th><th>HB 332</th></tr>
<tr><td>Anti-Spiking Provision</td><td>No anti-spiking provisions apply.</td><td>Compensation for a given year in the calculation of Final Compensation may not exceed compensation for the prior year by more than 15%.

Final Compensation shall not be less than Final Compensation as calculated on July 1, 2011 under the rules of current law.</td></tr>
<tr><td>Employer Contributions</td><td>Current law does not contain any language corresponding to the language proposed under HB 332.</td><td>If the recommended net employer contribution rate decreases from the rate set the previous year, the Board may set the net employer rate for the upcoming year to be the recommended rate, the previous year’s rate, or somewhere in between.

If the prior year’s rate exceeded 15% and the recommended rate is less than 15%, the maximum net employer rate that can be set by the Board is 15%.

Surplus contributions so provided may be used for the following purposes:

1. To reduce the outstanding balance of any unfunded accrued liability (UAL) existing as of the end of 1988-89, if any, and if not,

2. To reduce the outstanding UAL amortization charge bases or bases with the greatest number of outstanding payments with the remaining payment schedule unchanged.</td></tr>
<tr><td>Employee Contributions</td><td>The employee contribution rate is 8.00%</td><td>The employee contribution rate will depend on the total (the net employer rate plus employee rate) contribution rate in accordance with the following chart.

<table><tr><th>Total Rate</th><th>Employee Rate</th></tr><tr><td>21.0% or lower</td><td>8.00%</td></tr><tr><td>21.01% to 21.75%</td><td>8.25%</td></tr><tr><td>21.76% to 22.50%</td><td>8.50%</td></tr><tr><td>22.51% to 23.25%</td><td>8.75%</td></tr><tr><td>23.26% to 24.00%</td><td>9.00%</td></tr><tr><td>24.01% to 24.75%</td><td>9.25%</td></tr><tr><td>24.76% to 25.50%</td><td>9.50%</td></tr><tr><td>25.51% to 26.25%</td><td>9.75%</td></tr><tr><td>26.26% or higher</td><td>10.00%</td></tr></table>
The employee contribution rate for members whose compensation is below the poverty level as provided by the Department of Health and Human Services will not be greater than 8.00%.</td></tr>
</table>

Provisions of HB 332 Pertaining to MPERS

<table>
<tr><th>Topic</th><th>Current Law</th><th>HB 332</th></tr>
<tr><td>Anti-Spiking Provision</td><td>Compensation for a given year in the calculation of Final Compensation may not exceed compensation for the prior year by more than 25%.</td><td>Compensation for a given year in the calculation of Final Compensation may not exceed compensation for the prior year by more than 15%.

Final Compensation shall not be less than Final Compensation as calculated on July 1, 2011 under the rules of current law.</td></tr>
<tr><td>Board of Trustees</td><td>The Board consists of the following 11 members:

1. Three active members who are not chiefs of police,

2. Four active members who are chiefs of police,

3. Two retirees,

4. The chairman of the House Committee on Retirement,

5. The chairman of the Senate Committee on Retirement.</td><td>The Board will have the following 13 members:

1. Three active members who are not chiefs of police,

2. Four active members who are chiefs of police,

3. Two retirees,

4. The chairman of the House Committee on Retirement,

5. The chairman of the Senate Committee on Retirement.

6. The commissioner of administration,

7. The state treasurer.</td></tr>
<tr><td>Employer Contributions</td><td>Current law does not contain any language corresponding to the language proposed under HB 332.</td><td>If the recommended net employer contribution rate decreases from the rate set the previous year, the Board may set the net employer rate for the upcoming year to be the recommended rate, the previous year’s rate, or somewhere in between.

If the prior year’s rate exceeded 15% and the recommended rate is less than 15%, the maximum net employer rate that can be set by the Board is 15%.

Surplus contributions so provided may be used for the following purposes:

1. To reduce the outstanding balance of any unfunded accrued liability (UAL) existing as of the end of 1988-89, if any, and if not,

2. To reduce the outstanding UAL amortization charge bases or bases with the greatest number of outstanding payments with the remaining payment schedule unchanged.</td></tr>
<tr><td>Employee Contributions</td><td>The employee contribution rate is 7.50%.</td><td>The employee contribution rate will depend on the total (the net employer rate plus employee rate) contribution rate in accordance with the following chart.

<table><tr><th>Total Rate</th><th>Employee Rate</th></tr><tr><td>21.0% or lower</td><td>7.50%</td></tr><tr><td>21.01% to 21.75%</td><td>7.75%</td></tr><tr><td>21.76% to 22.50%</td><td>8.00%</td></tr><tr><td>22.51% to 23.25%</td><td>8.25%</td></tr><tr><td>23.26% to 24.00%</td><td>8.50%</td></tr><tr><td>24.01% to 24.75%</td><td>8.75%</td></tr><tr><td>24.76% to 25.50%</td><td>9.00%</td></tr><tr><td>25.51% to 26.25%</td><td>9.50%</td></tr><tr><td>26.26% to 27.00%</td><td>9.75%</td></tr><tr><td>27.00% or higher</td><td>10.00%</td></tr></table></td></tr>
</table>

Provisions of HB 332 Pertaining to MPERS (continued)

Topic	Current Law	HB 332
Employee Contributions (continued)		The employee contribution rate for members whose compensation is below the poverty level as provided by the Department of Health and Human Services will not be greater than 7.50%.

Provisions of HB 332 Pertaining to MERS

Topic	Current Law	HB 332
Anti-Spiking Provision	Compensation for a given year in the calculation of Final Compensation may not exceed compensation for the prior year by more than 25%.	Compensation for a given year in the calculation of Final Compensation may not exceed compensation for the prior year by more than 15%. Final Compensation shall not be less than Final Compensation as calculated on July 1, 2011 under the rules of current law.

Implications of the Proposed Changes

Enactment of HB 332 will have the following effect on FRS, MPERS, and MERS:

1. All three plans will have the same anti-spiking provision.

2. All three plans will have the authority to maintain the employer contribution rate at a higher level when the recommended rate decreases from one year to the next.

3. Employer contribution requirements for FRS and MPERS will have employee contribution rates that vary by the total contribution rate (net employer rate plus employee rate) applicable for each retirement system.

4. The commissioner of administration and the state treasurer will be on the Boards for FRS and MPERS. They are not on the MERS Board.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Provisions Pertaining to the Funding Review Panel

There are no actuarial costs or savings associated with these provisions of HB 332.

Provisions Pertaining to FRS

1. A member of the Firefighter's Retirement System has an incentive to work substantial overtime in the final years of his career in order to increase his final average compensation used in the calculation of the member's pension benefit. The anti-spiking rule under HB 332 will reduce the extent to which benefits can be increased near retirement and will result in lower actuarial costs.

2. The ability of the Board to retain employer contribution rates at higher levels when the rate would otherwise decline will result in lower actuarial costs over time. Earlier payment of contributions to the plan leads to an increase in investment earnings and lower contribution requirements over the long term.

3. Increases in employee contributions will lower employer contribution requirements that would otherwise be due. For every 0.25% increase in the employee contribution rate, employer contributions will be reduced by about $500,000 based on the projected payroll for 2011-12 and assuming that no members are earning less than the poverty rate.

Provisions Pertaining to MPERS

1. A member of the Municipal Police Employees' Retirement System has an incentive to work substantial overtime in the final years of his career in order to increase his final average compensation used in the calculation of the member's pension benefit. The anti-spiking rule under HB 332 will reduce the extent to which benefits can be increased near retirement and will result in lower actuarial costs.

2. There are no actuarial costs or savings associated with the increase in the number of Board members from 11 to 13.

3. The ability of the Board to retain employer contribution rates at higher levels when the rate would otherwise decline will result in lower actuarial costs over time. Earlier payment of contributions to the plan leads to an increase in investment earnings and lower contribution requirements over the long term.

4. Increases in employee contributions will lower employer contribution requirements that would otherwise be due. For every 0.25% increase in the employee contribution rate, employer contributions will be reduced by about $670,000 based on today's the projected payroll for 2011-12 and assuming that no members are earning less than the poverty rate.

Provisions Pertaining to MERS

- A member of the Municipal Employees' Retirement System has an incentive to work substantial overtime in the final years of his career in order to increase his final average compensation used in the calculation of the member's pension benefit. The anti-spiking rule under HB 332 will reduce the extent to which benefits can be increased near retirement and will result in lower actuarial costs.

Other Post Retirement Benefits

There could be actuarial savings associated with HB 332 relative to post-retirement benefits other than pensions. Costs will decrease to the extent that member benefits will be reduced due to the anti-spiking rules, thereby delaying a member's retirement until such retirement is affordable. Such a delay will lower costs for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

HB 332 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

1. Expenditures from FRS, MPERS, and MERS (Agy Self Generated) will decrease to the extent that benefits are smaller due to the 15% anti-spiking provisions.

2. Expenditures from Local Funds will decrease. Additional employee contributions will reduce employer contribution rates that otherwise would have applied.

3. Expenditures from Local Funds will increase to the extent that the Boards may elect to maintain net employer contribution rates at a level higher than they would have been otherwise.

Revenues:

1. Revenues for FRS, MPERS and MERS (Agy Self Generated) will decrease to the extent that the total contribution rate will decrease because of the 15% anti-spiking rule.

2. Revenues for FRS and MERS (Agy Self Generated) will increase to the extent that the Boards elect to maintain net employer contributions at a level than they would be otherwise.

MPERS reported a one-time cost of $5,000 to implement the provisions of HB 332. The other two systems did not respond to our request for information.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Dual Referral:

Senate

☐ 13.5.1 ≥ $100,000 Annual Fiscal Cost

☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change

House

☐ 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost

☐ 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost

☐ 6.8(G) ≥ $500,000 Annual Tax or Fee Change