2011 REGULAR SESSION
ACTUARIAL NOTE HB 352

House Bill 352 HLS 11RS-621 Engrossed **Author: Representative Karen St. Germain** **Date: May 25, 2011** **LLA Note HB 352.02** **Organizations Affected: Firefighters' Retirement System** **EG NO IMPACT APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.**  **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/FIREFIGHTERS: Changes the sunset date on a member's option to convert from regular retirement to disability retirement so as to retain the option for an additional five years.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	$0
Total Five Year Fiscal Cost	
Expenditures	$0
Revenues	$0

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	$0
Other Post Retirement Benefits	$0
Total	$0

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	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	**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	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

Bill Information:

Current Law

Occasionally a firefighter who is a member of the Firefighters' Retirement System discovers after he retires or has entered DROP that he is disabled and that the disability was a direct result of his employment as a firefighter. The disability became apparent after he retired or entered DROP but was a direct result of his employment as a firefighter before retiring or entering DROP. If

this occurs, the firefighter may convert his retirement benefit from a service related retirement benefit to a disability benefit. The following rules apply to such a conversion.

1. The firefighter must be able to clearly demonstrate that the conditions causing the disability occurred during his active service (before retirement or entering DROP).

2. The actuarial cost of the benefit after conversion to a disability benefit is not greater than the actuarial cost immediately before conversion.

3. The optional form of benefit and designation of beneficiary does not change.

With these constraints, the benefit after conversion to a disability cannot exceed the benefit immediately before the conversion.

The purpose of current law is to provide a retiree with a tax advantage under IRS code and regulations. A regular pension benefit is taxable under the IRS code. A disability pension for firefighters disabled while in service is not taxable.

The provisions of current law permitting a conversion from a regular benefit to a disability benefit will expire effective July 1, 2011.

Proposed Law

HB 352 changes the expiration date of current law from July 1, 2011, to July 1, 2016. HB 352 also requires PRSAC to publish the results of the actuarial impact of all such conversions occurring between July 1, 2001 and June 30, 2006, between July 1, 2006 and June 30, 2011, and between July 1, 2011 and June 30, 2016.

Implications of the Proposed Changes

HB 253 will allow firefighters who are diagnosed as disabled after retirement or entry into DROP to enjoy favorable tax treatment of their pension benefit as long as it can be shown that the disability occurred before retirement and as a direct result of employment as a firefighter. The conversion privilege will be extended for another five year period.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

There are no actuarial costs or savings associated with HB 352. The bill merely extends the benefit conversion privilege for another five year period. No benefit amounts or rights are changed.

Other Post Retirement Benefits

There are no actuarial costs or savings associated with HB 352 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Although the Firefighters' Retirement System did not respond to our request for information, we assume there are no administrative costs associated with HB 352 because the benefit conversion rules have been in place for ten years. An extension for another five years should not cause the Firefighters' Retirement System to incur any additional administrative costs.

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