2011 REGULAR SESSION
ACTUARIAL NOTE SB 4

Senate Bill 4 SLS 11RS-146 Engrossed **Author: Senator B. L. Shaw** **Date: June 8, 2011** **LLA Note SB 4.02** **Organizations Affected:** **Municipal Police Employees' Retirement System** **EG INCREASE 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**

<u>Bill Header:</u> MUNICIPAL POL EMPS RET: Provides relative to employee and employer contributions under certain circumstances. (7/1/11)

<u>Cost Summary:</u>

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

<u>Estimated Actuarial Impact:</u>

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 **<u>not</u>** include present value costs associated with administration or other fiscal concerns.

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

<u>Estimated Fiscal Impact:</u>

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	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	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

<u>Bill Information:</u>

Current Law

Under current law, retirement benefits provided by the Municipal Police Employees' Retirement System (MPERS) may not exceed 100% of the member's average compensation. When a member has earned 100% of his average compensation he stops paying contributions. However, the employer continues to pay the required employer contribution to the retirement system based on his salary.

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Proposed Law

Proposed law provides that when a member of MPERS has earned 100% of his average compensation, the employer will make no further contributions to the system. Instead, the member shall pay the employer contribution to the retirement system in lieu of the employee contribution.

Implications of the Proposed Changes

Under SB 4, a member who has accrued a benefit that equals or exceeds 100% of his final average compensation will be required to contribute substantially more to the retirement system than he would have been required to contribute without the bill's enactment. Currently such a member contributes 0.0% of pay. Under SB 4, he will be required to contribute 28.0% of pay if he continues to work. It is quite likely that such an employee will retire rather than pay the higher contribution.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

It is likely that the financial and actuarial effect of SB 4 on MPERS will be significant. There are 24 active members of MPERS who have more than 30 years of service; 274 members that have 25 to 30 years of service; and 61 members who are continuing to work more than 5 years after DROP. Many of these members, particularly those who have not yet attained 30 years of service will perhaps retire before attaining or immediately after attaining 30 years of service. But many will continue their employment. However, if SB 4 is enacted, it is likely that most of those who would have continued to work will instead elect to retire.

Contributions received by MPERS, relative to a member who elects to continue employment after accruing a benefit equal to 100% of his final average compensation, will not change. The source of revenue is merely shifted from the employer to the employee. However, it is likely that SB 4 will encourage such a member to retire earlier than he would have otherwise. Earlier retirement means that revenues received by MPERS will decrease and benefit payments made by MPERS will increase. As a result, the employer contribution rate will have to be increased to make up for the lost revenue and the increase in benefit payments.

The net effect of SB 4 will be an increase in actuarial cost to the retirement system.

Other Post Retirement Benefits

To the extent that the employer of an employee affected by SB 4 pays a portion of any premiums for post-retirement benefits other than pensions, the employer will sustain an increase in its reported liability under GASB 45.

Analysis of Fiscal Costs

Enactment of SB 4 will have the following effect on fiscal costs over the next five year period.

Expenditures:

1. Local government expenditures will decrease since employers will no longer have pay contributions for those employees with 100% accrued benefit.

2. Expenditures from MPERS for benefit payments (Agy/Self Generated) will increase because it is likely that members affected by the bill will retire earlier than they would have otherwise.

3. Local government expenditures will also increase because employer contribution rates will have to be raised to pay for the increased benefit payments.

Revenues:

1. MPERS' revenues (Agy/Self Generated) will not change relative to members who elect to continue to work after accruing a benefit equal to 100% of final average earnings.

2. MPERS' revenue (Agy/Self Generated) will decrease to the extent that salaries (and employer contributions on those salaries) for new police officers will be less than for those members who elect to retire instead of continuing to work and pay the contribution.

3. MPERS revenues are likely to increase, however, because it will be necessary to increase contribution requirements to pay for retirement benefits that would not have been paid had SB 4 not been enacted.

The net effect will be an increase in costs. Such cost increases cannot be separately identified, but rather will be recognized in the aggregate with other actuarial gains and losses subject to 30 year amortization. The cost can neither be precisely determined nor allocated to any particular year of the fiscal measurement period. The only conclusion that can be drawn is that there will be a net increase in fiscal costs.

The Office of the Louisiana Legislative Auditor has asked MPERS to provide an estimate of additional administrative costs that will be incurred by the retirement system if SB 4 is enacted. MPERS has not responded to this request.

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		**House**	
x	13.5.1 ≥ $100,000 Annual Fiscal Cost	x	6.8(F)(1) ≥ $500,000 Annual Fiscal Cost
	13.5.2 ≥ $500,000 Annual Tax or Fee Change		6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost
			6.8(G) ≥ $500,000 Annual Tax or Fee Change

Although the fiscal cost for any one of the three fiscal years following the 2011 legislative session cannot be measured and is not specified, it is very likely that such cost will exceed $100,000 in one or more years during the measurement period and is somewhat likely to exceed $500,000 in one or more years. There are no fiscal costs associated with the state general fund.