2011 REGULAR SESSION
ACTUARIAL NOTE HB 404

House Bill 404 HLS 11RS-977 Enrolled **Author: Representative Noble Ellington** **Date: June 21, 2011** **LLA Note HB 404.03** **Organizations Affected:** **Louisiana State Employees' Retirement System** **EN 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

Bill Header: RETIREMENT/STATE EMPS: Provides for the purchase of credit for certain federal service.

Cost Summary:

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

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	Increase
Other Post Retirement Benefits	Increase
Total	Increase

Changes in the unfunded accrued liability of the retirement system resulting from HB 404 cannot be separately identified. Any changes in liability in future years will be recognized in the aggregate with other actuarial gains or losses and will be amortized over a period of 30 years. Subject to this caveat, this bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in benefits to be amortized over a period not to exceed ten years.

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	Increase	Increase	Increase	Increase	Increase	Increase
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

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	Increase	Increase	Increase	Increase	Increase	Increase
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

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Bill Information:

Current Law

A member of LASERS may purchase up to five years of benefit service for periods of time during which the member was not employed by Louisiana governmental entities. There are no provisions in current law that specifically address the purchase of service credits (benefit or eligibility) for periods of time associated with employment by the federal government.

Proposed Law

HB 404 will allow a member of LASERS to purchase unlimited amounts of service for any period of time during which the member contributed to a retirement plan for federal employees as long as he has at least one year of service credited with LASERS. Service credits so purchased will be used for benefit and eligibility purposes. Note: HB 404 does not exclude military service from federal service that can be purchased. Federal service can be purchased only if the the member is not eligible to receive a benefit based on that service. Federal service can be purchased in addition to the five years of service that can be purchased for periods of time during which the member was not employed by Louisiana government.

To acquire the service credits, the member must pay the actuarial cost as determined under the actuarial provisions of RS 11:158.

Implications of the Proposed Changes

HB 404 will give active members of LASERS, who had contributed to a federal employees' retirement plan, added flexibility in timing their retirement. However, to attain that additional flexibility the member must pay the full cost associated with the benefit rights granted.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Anti-selection costs will be incurred under HB 404. For example, a member who is terminally ill, may elect to purchase service in order to retire and provide a life income to a spouse once he dies. The actuarial cost charged by the retirement system will not reflect the additional costs that will be incurred because the member is in poor health. Anti-selection costs cannot be eliminated unless each purchase is individually underwritten.

There is an actuarial cost associated with HB 404. The cost is small; it is not negligible; but it cannot be measured with any degree of accuracy.

Other Post Retirement Benefits

Anti-selection costs will be incurred and additional benefits will be paid under HB 404 for post-retirement benefits other than pensions for the same reasons that these costs will be incurred relative to pension benefits. These costs are negligible.

Analysis of Fiscal Costs

Enactment of HB 404 will have the following effects on fiscal expenditures and revenues.

Expenditures:

1. Expenditures from the General Fund will increase for the following reasons.

    a. Employer contributions to LASERS will increase due to anti-selection costs.

    b. Expenditures from the General Fund will increase due to anti-selection costs that will be incurred by OGB. The net effect on fiscal costs is negligible.

2. Expenditures by LASERS (Agy Self Generated) will increase due to incidences of anti-selection. Some members will elect to purchase service credits and retire immediately. Without HB 404, they would not have been able to retire and no benefit payments would have been incurred.

Revenues:

1. General Fund revenues will increase to the extent that employees who retire earlier than they would have otherwise will be paying premiums for health insurance that otherwise would not have been paid.

2. LASERS revenues (Agy Self generated) will increase because members will be required to pay for the service credits that they purchase.

3. LASERS revenues (Agy Self Generated) will increase because employer contribution requirements will be larger.

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Fiscal costs in the aggregate will increase. Costs will be incurred in the future; however, these costs cannot be separately identified. Costs, when they do occur, will be recognized in the aggregate with other actuarial gains and losses subject to 30 year amortization.

LASERS anticipates no additional administrative costs associated with HB 404.

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