

2012 REGULAR SESSION  
ACTUARIAL NOTE HB 39

|                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                     |
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| <b>House Bill 39 HLS 12RS-381 Engrossed</b><br><br><b>Author: Representative Jack Montoucet</b><br><br><b>Date: March 30, 2012</b><br><br><b>LLA Note HB 39.02</b><br><br><b>Organizations Affected:</b><br><b>Firefighters' Retirement System</b><br><br><b>EG INCREASE APV</b> | <b>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</b><br><br><br><b>Paul T. Richmond, ASA, MAAA, EA</b><br><b>Manager Actuarial Services</b> |
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**Bill Header:** RETIREMENT/FIREFIGHTERS: Provides relative to federal tax qualification requirements for the Firefighters' Retirement System

**Cost Summary:**

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

The increases shown above are small to the point of being negligible.

**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 administrative or other fiscal concerns.

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

The increases shown above are small to the point of being negligible.

**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.

| <b>EXPENDITURES</b> | <b>2011-12</b> | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> | <b>5 Year Total</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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            |

| <b>REVENUES</b>    | <b>2011-12</b> | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> | <b>5 Year Total</b> |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| 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            |

The increases shown above are all small to the point of being negligible.

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### **Bill Information:**

#### **Current Law**

Federal law requires qualified retirement plans to provide special benefit rights to members serving in the military. Louisiana law pertaining to the Firefighters' Retirement System (FRS) does not contain these provisions.

#### **Proposed Law**

HB 39 will bring FRS into compliance with federal law. These rules are summarized below:

1. Special benefit rights will be granted to any member of FRS who has qualified military service under Chapter 43 of Title 38, United States Code, and who is also reemployed following such military service in accordance with 26 U.S.C. 414(u).
2. Such a member will receive service credit for benefit and eligibility purposes for periods of time in the military if he pays to the retirement system the employee contributions he would have been required to pay had he not served in the military. This payment must be made within a reasonable period of time following reemployment as specified under 26 U.S.C. 414(u).
3. If a member dies while in qualified military service then his beneficiary shall be entitled to any benefit that would have been payable had the member not entered the military.
  - a. If the member had continued to pay employee contributions to the system during his period of military service, the death benefit shall include any benefits that would have been earned had he continued in employment as a firefighter.
  - b. If the member had not continued to pay employee contributions, the death benefit shall exclude any benefit that would have been earned during the same period of military service.

HB 39 also authorizes FRS to make changes necessary to maintain compliance with the Internal Revenue Code by promulgation of rules in accordance with the Administrative Procedures Act.

#### **Implications of the Proposed Changes**

HB 39 will bring FRS into compliance with standards necessary to maintain the qualified status of the plan under the Internal Revenue Code and other federal law. Members of FRS, who also serve in the military, will receive greater benefit rights upon enactment of HB 39 than they currently enjoy.

### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

##### **Retirement Systems**

Actuarial costs of the retirement system will increase as a result of the enactment of HB 39. Actuarial costs increase any time a member is provided more rights under the system than he had before. Additional contributions collected from employees under HB 39 are not sufficient to offset the additional costs incurred. However, the net increase in cost is small to the point of being negligible.

##### **Other Post Retirement Benefits**

There is an actuarial cost associated with HB 39 for post-retirement benefits to the extent that employers of firefighters provide or subsidize these benefits. A member, who is allowed to acquire service credits under HB 39 that he otherwise wouldn't have been able to acquire, may retire earlier and collect such benefits for a longer period. The increase in actuarial costs is small to the point of being negligible.

#### **Analysis of Fiscal Costs**

Changes in fiscal costs are summarized below:

##### **Expenditures:**

1. Expenditures from FRS (Agy Self Generated) will increase to the extent that a member dies while in military service and is entitled to benefits that he otherwise would not have been entitled to. These additional expenditures are expected to be small to the point of being negligible.
2. Expenditures from FRS (Agy Self Generated) will increase to the extent that a member will be entitled to benefit and eligibility service credits that he otherwise may not have been entitled to. These additional expenditures during the fiscal measurement period are expected to be small to the point of being negligible.
3. Although FRS did not respond to our request for information, the increase in administrative costs to FRS is expected to be negligible.

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- 4. Expenditures of local funds are expected to increase to the extent that employer contribution requirements are increased to pay for increased benefit and administrative costs. These expenditures are expected to be small to the point of being negligible.
- 5. Expenditures of local funds are expected to increase to the extent that employers of firefighters pay for or subsidize the cost of post retirement benefits. These expenditures are expected to be small to the point of being negligible.

Revenues:

- 1. Revenues for FRS (Agy Self Generated) are expected to increase to the extent that employer contribution requirements are increased to pay for increased benefit and administrative costs. These revenues are expected to be small to the point of being negligible.
- 2. Revenues for FRS (Agy Self Generated) are expected to increase to the extent that members pay contributions to the to the retirement system for the period of time while in military service.

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 necessary to render the actuarial opinions contained herein.

Dual Referral:

| <u>Senate</u>                                                        | <u>House</u>                                                                          |
|----------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| <input type="checkbox"/> 13.5.1 ≥ \$100,000 Annual Fiscal Cost       | <input type="checkbox"/> 6.8(F) ≥ \$100,000 Annual Fiscal Cost                        |
| <input type="checkbox"/> 13.5.2 ≥ \$100,000 Annual Tax or Fee Change | <input type="checkbox"/> 6.8(G) ≥ \$100,000 Tax or Fee Increase or a Net Fee Decrease |