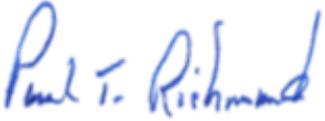


**2012 REGULAR SESSION  
ACTUARIAL NOTE HB 10**

<p><b>House Bill 10 HLS 12RS-108 Original</b></p> <p><b>Author: Representative Anthony V. Ligi</b> <b>Date: April 18, 2012</b></p> <p><b>LLA Note HB 10.01</b></p> <p><b>Organizations Affected:</b> <b>All Louisiana public retirement systems</b></p> <p><b>OR SEE ACTUARIAL NOTE APV</b></p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
---	---

**Bill Header:** RETIREMENT BENEFITS: Requires forfeiture of retirement benefits by any public employee or elected official who is a member of a public retirement system and is convicted of certain state or federal felony acts associated with his office.

**Cost Summary:**

Actuarial Cost/(Savings) to Retirement Systems and OGB	See Actuarial Analysis Below
Total Five Year Fiscal Cost	
Expenditures	\$72,193
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.

<b><u>Actuarial Cost (Savings) to:</u></b>	<b><u>Increase (Decrease) in The Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	See Actuarial Analysis Below
Other Post Retirement Benefits	\$0
Total	See Actuarial Analysis Below

**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>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-2017</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	43,597	6,868	7,052	7,241	7,435	72,193
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	\$ 43,597	\$ 6,868	\$ 7,052	\$ 7,241	\$ 7,435	\$ 72,193

<b>REVENUES</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-2017</b>	<b>5 Year Total</b>
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**

Current law does not require forfeiture of retirement benefits by a public employee or elected official who is a member of a Louisiana public retirement system even if he is convicted of a felony associated with his office.

**2012 REGULAR SESSION  
ACTUARIAL NOTE HB 10**

**Proposed Law**

HB 10 will require the forfeiture of benefits from a Louisiana public retirement system if a public employee or official is convicted of a state or federal felony associated with his employment or office and the felony is committed on or after January 1, 2013. Forfeiture rules are summarized below:

1. Employer provided benefits are forfeited, including funds in an employee's DROP account.
2. Employee provided benefits are available to satisfy court ordered restitutions or fines.

Retirement benefits of a convicted public employee or official shall be recalculated in the following manner:

1. The employee's contributions, less the amount used to satisfy court ordered restitution or fines, shall be accumulated with interest to the date of recalculation.
2. The accumulated value of such employee contributions shall then be used to purchase service credits for benefit calculation purposes in accordance with R.S. 11:158(C)(1)(a) and (2).
3. All benefit amounts and entitlements after conviction will be based on the employee's new benefit service credits and his pre conviction eligibility service credits.

Forfeiture rules apply only to participants in defined benefit plans who are hired on or after January 1, 2013. The rules do not apply to participants of Louisiana public defined contribution plans.

Survivor benefits that become payable upon the member's death after conviction will be based on the new benefit service credits, if any, and pre conviction eligibility service credits.

This Act shall take effect and become operative if and when the proposed amendments of Article X of the Constitution of Louisiana, contained in the Act which originated as House Bill 9 of this 2012 Regular Session, is adopted at a statewide election to be held in 2012 and becomes effective.

**Implications of the Proposed Changes**

HB 10 provides for the forfeiture of employer provided retirement benefits in the event a public employee or official is convicted of a state or federal felony associated with his employment and the felony is committed on or after January 1, 2013.

The proposed law will apply only to employees and officials hired on or after January 1, 2013. It does not apply to employees and officials already employed in Louisiana government.

**Cost Analysis:**

**Analysis of Actuarial Costs**

**Retirement Systems**

Under the provisions of HB 10, it is anticipated that an individual employee will have fewer benefit service credits after conviction than he had prior to conviction. However, it is actually quite possible for a convicted employee to end up with more credits than before. Post-conviction service credits are calculated in the following manner.

1. Step 1 – Determine the sum of the convicted employee's contributions accumulated with interest at the valuation interest rate to the date of his conviction.
2. Step 2 – Using the provisions of §158(C)(1)(a) and (2), determine the amount of service credits that the employee can buy for the sum of money determined in Step 1.

Under some circumstances, it is possible that credits granted under Step 2 will exceed the service credits the convicted employee had pre conviction. This may happen for the following reason:

1. Employee contributions for some state and statewide systems are more than sufficient to fund all the benefits the employee may become entitled to under the retirement plan.
2. As a result, the accumulation of employee contributions at the valuation interest rate will produce a value that is greater than the value of the service credits he has earned under the plan.

Consider the following examples for two regular members of LASERS.

	<b>Employee A</b>	<b>Employee B</b>
Age at Hire	20	40
Salary at Hire	\$ 27,000	\$ 58,000
Years of Service	20	20
Age at Conviction	40	60
Employee Contributions Accumulated at Valuation Rate	\$ 102,000	\$ 183,000
Accrued Liability Based on Pre-Conviction Service Credits	\$ 71,000	\$ 356,000
Approximate Post Conviction Service Credits	28.7 years	10.3 years

**2012 REGULAR SESSION  
ACTUARIAL NOTE HB 10**

Also consider the following examples for two members of the State Police Retirement System.

	<b>Employee C</b>	<b>Employee D</b>
Age at Hire	35	25
Salary at Hire	\$ 32,000	\$ 32,000
Years of Service	15	15
Age at Conviction	50	40
Employee Contributions Accumulated at Valuation Rate	\$ 104,000	\$ 104,000
Accrued Liability Based on Pre-Conviction Service Credits	\$ 390,000	\$ 368,000
Approximate Post Conviction Service Credits	4.0 years	4.2 years

None of the examples shown above are extraordinary. Nevertheless, retirement plan penalties differ widely from employee to employee and from retirement system to retirement system. In one example, the convicted employee is even better off post-conviction. As a result, it is not possible to calculate the actuarial cost or savings associated with HB 10. Actuarial costs or savings are dependent on the number of members convicted, which the system the employee is in, and member characteristics (age at hire, years of service at conviction, etc.).

**Other Post Retirement Benefits**

The provisions of HB 10 do not affect a member’s entitlement to other post-retirement benefits, such as health insurance. Such entitlements are governed under a different set of laws and rules. Therefore, HB 10 has no fiscal costs or savings and no actuarial effect on liabilities for other post-employment benefits.

**Analysis of Fiscal Costs**

Fiscal costs will vary from one retirement system to another. Fiscal cost information was requested and provided by the four state systems – LASERS, TRSL, STPOL, and LSERS, and three statewide systems – PERS, CCRS, and MERS.

LASERS indicated that there would be an expenditure increase but the amount of increase is indeterminable; legal issues will generate additional administrative costs.

TRSL and LSERS indicated a need for programming and communication expenses in the first year and additional administrative expenses every year thereafter. Their estimates are shown below:

<b>Year</b>	<b>TRSL</b>	<b>LSERS</b>	<b>Total</b>
2012-13	\$ 13,670	\$ 29,927	\$ 43,597
2013-14	6,244	624	6,868
2014-15	6,412	640	7,052
2015-16	6,585	656	7,241
2016-17	6,763	672	7,435
Total	\$ 39,674	\$ 32,519	\$ 72,193

STPOL PERS, CCRS and MERS state that additional administrative costs cannot be reliably estimated at this time.

Because they are smaller, it is assumed that the rest of statewide systems will be able to administer HB 10 without any additional staff or need for communications.

Although actuarial calculations required under HB 10 are estimated to cost \$300 per calculation, no calculations should be required over the next five years for newly employed members because they will not have earned sufficient service to be vested.

The total fiscal cost during the five year measurement period is estimated to be \$72,193.

**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 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) ≥ \$500,000 Annual Fiscal Cost

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