

2012 REGULAR SESSION
ACTUARIAL NOTE HB 1064

House Bill 1064 HLS 12RS-2047 Engrossed Author: Frank A. Hoffmann Date: April 23, 2012 LLA Note HB 1064.02 Organizations Affected: District Attorneys' Retirement System of Louisiana (DARS) EG -\$18,701,000 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
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Bill Header: RETIREMENT/DISTRICT ATTY: Relative to District Attorneys’ Retirement System

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$ (18,701,000)
Total Five Year Fiscal Cost	
Expenditures	\$ (8,600,000)
Revenues	\$ (5,750,000)

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.

	<u>Increase (Decrease) in</u> <u>The Actuarial Present Value</u>
<u>Actuarial Cost (Savings) to:</u>	
All Louisiana Public Retirement Systems	\$ (18,701,000)
Other Post Retirement Benefits	\$0
Total	\$ (18,701,000)

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	2012-13	2013-14	2014-15	2015-16	2016-2017	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	(2,150,000)	(2,150,000)	(2,150,000)	(2,150,000)	(8,600,000)
Annual Total	\$ 0	\$ (2,150,000)	\$ (2,150,000)	\$ (2,150,000)	\$ (2,150,000)	\$ (8,600,000)

REVENUES	2012-13	2013-14	2014-15	2015-16	2016-2017	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	570,000	(1,580,000)	(1,580,000)	(1,580,000)	(1,580,000)	(5,750,000)
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	\$ 570,000	\$ (1,580,000)	\$ (1,580,000)	\$ (1,580,000)	\$ (1,580,000)	\$ (5,750,000)

Bill Information:

Current Law

Under current law:

- 1. Members contribute 7% of compensation.
- 2. The final average compensation (FAC) is based on the highest 36 consecutive months.

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3. There is a 110% anti-spiking provision relative to the pay of a district attorney from sources other than the state. Anti-spiking provisions apply only to the final two years in the final average compensation period.
4. An active member who dies while in employment, after becoming eligible for retirement, is entitled to the same survivor benefits as any other active member.

Proposed Law

Under HB 1064:

1. Members will contribute 8% of compensation.
2. Final average compensation will be based on the highest 60 consecutive months.
3. The current anti-spiking provision will be extended from the final two years in the FAC period to the final five years.

Note: The provisions of HB 1064 pertaining to the calculation of final average compensation and anti-spiking will be phased in over a two year period beginning January 1, 2013 and ending December 31, 2014. Furthermore, the calculation of final average compensation for any member retiring in the future will not be less than the amount that would have been calculated had it been made on July 1, 2012.

4. The survivor of a member who dies while in employment after becoming eligible for retirement may elect to receive the Back-DROP benefit that the member would have received had he retired on his date of death, had elected Back-DROP, and had elected the Option 2 retirement benefit. The survivor may make this election in lieu of receiving the survivor benefits that otherwise would be payable under the plan.

Implications of the Proposed Changes

HB 1064 increases employee contribution requirements and generally decreases benefits payable at retirement.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The following provisions of HB 1064 have an actuarial cost.

1. The provision giving special benefit rights to a survivor of a deceased active member who dies after becoming eligible to retire will cause the employer normal cost to increase about 0.04% of pay, or about \$23,000 a year. The actuarial present value cost to employers will increase about \$198,000.

The following provisions of HB 1064 will produce actuarial savings.

1. The provision increasing the employee contribution rate to 8.0% of pay will cause the employer normal cost to decrease 0.95% of pay, or about \$542,000 a year. The actuarial present value cost to employers will decrease about \$4,712,000.
2. The provisions increasing the FAC and anti-spiking periods to 5 years will cause the employer normal cost to decrease 2.86% of pay (about \$1,631,000 per year) initially with a gradual reduction in the savings over time. Eventually, the employer normal cost will be about 1.04% of pay (\$593,000 per year) less than it is currently. The actuarial present value cost to employers will decrease about \$14,187,000.

Actuarial costs associated with the other provisions of HB 1064 are either \$0 or negligible.

The provisions of HB 1064 that produce actuarial savings are potentially subject to a variety of federal and state constitutional challenges, including Contract Clause, Takings Clause, Due Process Clause, U.S. Constitution 5th Amendment, and U.S. Section 1983 – wrongful enforcement claims. We have not calculated the actuarial or financial effects of such challenges in the preparation of this actuarial note, which could potentially include litigation costs and the cost of earlier retirement for some individuals. However, we have been counseled of the potential consequences if such challenges arise. The legal analysis requested by the LLA may be found at www.la.la.gov.

Other Post Retirement Benefits

There is no actuarial cost associated with HB 1064 for post-retirement benefits other than pensions.

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Analysis of Fiscal Costs

Changes in fiscal costs are summarized below:

Expenditures:

1. Expenditures from DARS (Agy Self Generated) will decrease to the extent that pensions payable to members who retire after July 1, 2012 will be smaller as a result of HB 1064.
2. Expenditures from DARS (Agy Self-Generated) will increase to the extent that survivors of active members who die after becoming eligible to retire will have greater benefit rights.
3. Expenditures from DARS (Agy Self-Generated) will increase to the extent that members who receive a refund of employee contributions upon termination of employment will receive larger refunds. Refunds will be larger because employee contributions will be larger.
4. Expenditures from DARS (Agy Self-Generated) in the aggregate are expected to decrease.
5. Expenditures from Local Funds are expected to decrease about \$2,150,000 a year beginning in FY 2014. The decrease is a net result of the increase in employee contribution requirements, the increase in the FAC period, and the increase in survivor benefits for active members who die after becoming eligible for retirement.

Revenues:

1. Revenues for DARS (Agy Self Generated) are expected to increase in FY 2013 because the employer contribution rate for FY 2013 will not change but employees will be contributing an additional 1% of pay, or \$570,000.
2. Revenues for DARS (Agy Self-Generated) are expected to decrease in FY 2013 and thereafter because employer contribution requirements will decrease more than the increase in employee contribution requirements. The net effect will be a decrease of about \$1,580,000 per year beginning in FY 2014.

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 $\geq$ \$100,000 Annual Fiscal Cost
- ☐ 13.5.2 $\geq$ \$500,000 Annual Tax or Fee Change

House

- ☐ 6.8(F) $\geq$ \$500,000 Annual Fiscal Cost
- ☐ 6.8(G) $\geq$ \$500,000 Annual Tax or Fee Change