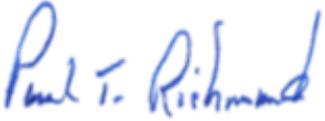


**2012 REGULAR SESSION
ACTUARIAL NOTE HB 988**

<p>House Bill 988 HLS 12RS-1059 Engrossed</p> <p>Author: Representative Sam Jones Date: April 29, 2012</p> <p>LLA Note HB 988.01</p> <p>Organizations Affected: Firefighters' Retirement System (FRS)</p> <p>EG NO IMPACT APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</p> <div style="text-align: center;">  <p>Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services</p> </div>
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides for a five-year deferred retirement option plan for certain members of the Firefighters' Retirement System

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$0
Total Five Year Fiscal Cost	
Expenditures	\$0
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.

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

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	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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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	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

Under current law, members of the Firefighters' Retirement System may remain in DROP for a period of three years.

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Proposed Law

Under HB 988, a member of DROP who has 27 years of service before entering DROP may elect to remain in DROP for two additional years for a total of 5 years.

Implications of the Proposed Changes

HB 988 lengthens the period of time a member of FRS with 27 or more years of service will be able to remain in DROP, continue to work, and continue to have pension deposits made into his DROP account.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 988 produces offsetting increases and decreases in actuarial costs.

Actuarial costs are expected to increase relative to members of FRS who have 27 or more years of service. These costs are discussed below. Consider the following situations:

A member with 27 years of service is now 55 years old. He is earning \$60,000 a year and has been earning that amount for the past 6 years. He has been in DROP for 3 years. His annual pension benefit calculated before entering DROP is \$54,000.

Situation A

Let's first suppose that the member intends to continue to work two more years regardless of whether HB 988 is enacted. HB 988 will then have the following effects on the member, FRS, and the employer.

The following analysis shows the member gains \$68,000 from HB 988, FRS loses \$96,800, and the employer gains \$28,800.

Effect On:		HB 988 Is Not Enacted	HB 988 Is Enacted
The Member:			
	Deposits into DROP Account	\$ 0	$\$54,000 \times 2 =$ \$ 108,000
	Member Contributions to FRS	$\$60,000 \times 2 \times 10\% =$ \$ (12,000)	\$ 0
	Value of Additional Benefit Accruals	$2 \times 3 \frac{1}{3}\% \times \$60,000 \times 13 =$ \$52,000	\$ 0
	Increase/(Decrease) in Wealth	\$ 40,000	\$ 108,000
FRS:			
	Payments to member or his DROP account.	\$0	$2 \times \$54,000 =$ \$(108,000)
	Contributions received from the member	$\$60,000 \times 2 \times 10\% =$ \$ 12,000	\$ 0
	Contributions received from the employer	$\$60,000 \times 2 \times 24\% =$ \$ 28,800	\$ 0
	Value of additional benefits earned	$2 \times 3 \frac{1}{3}\% \times \$60,000 \times 13$ = \$ (52,000)	\$ 0
	Increase/(Decrease) in Assets	\$ (11,200)	\$ (108,000)
The Employer:			
	Contributions paid by the employer to FRS	\$ (28,800)	\$ 0
Total Effect on all Stakeholders		\$ 0	\$ 0

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Situation B

On the other hand, let's suppose that the member will quit immediately if HB 988 is not enacted, but will continue to work if it is enacted. HB 988 will then have the following effects on the member, FRS, and the employer.

The following analysis shows the member is unaffected by HB 988; FRS losses \$17,400, and the employer loses \$45,600.

Effect On:		HB 988 Is Not Enacted	HB 988 Is Enacted
The Member:			
	Deposits into DROP Account or pension payments	\$ 108,000	\$ 108,000
	Member Contributions to FRS	\$ 0	\$ 0
	Value of Additional Benefit Accruals	\$ 0	\$ 0
	Increase/(Decrease) in Wealth	\$ 108,000	\$ 108,000
FRS:			
	Payments to member or his DROP account.	\$(108,000)	\$(108,000)
	Contributions received from the member or his replacement assuming replacement earns \$30,000 a year	$\$30,000 \times 2 \times 10\% =$ \$ 6,000	\$ 0
	Contributions received from the employer on member's salary or on his replacement's salary	$\$30,000 \times 2 \times 24\% =$ \$ 14,400	\$ 0
	Value of additional benefits earned	$2 \times 3 \frac{1}{3}\% \times (\$30,000) \times 1.5$ = \$ (3,000)	\$ 0
	Increase/(Decrease) in Assets	\$ (90,600)	\$ (108,000)
The Employer:			
	Salary paid to the member and/or his replacement	$2 \times \$ (30,000) =$ \$(60,000)	$2 \times \$ (60,000) =$ \$(120,000)
	Contributions paid by the employer to FRS	\$ (14,400)	\$ 0
	Increase/(Decrease in Assets)	\$ (74,400)	(120,000)
Total Effect on all Stakeholders		\$ (57,000)	\$ (120,000)

Therefore, in both situations, FRS incurs an actuarial cost as a result of HB 988. Employer contribution requirements will have to be increased in the future in order to accommodate greater expenditures from the retirement system. The precise amount cannot be determined. About 125 members of FRS are currently in DROP with 27 or more years of service. It is likely that many of these members are in Situation A; they will work two more years regardless of HB 988. Enactment will provide them with a windfall and FRS will pay out significantly more money. Other members are in situation B. They will not receive a windfall, but FRS still incurs a net loss.

However, there are actuarial savings relative to members of FRS who upon attaining 25 years of service elect to continue regular employment and defer entry into DROP for two years to obtain the benefit of the extended DROP period. Actuarial savings for members with less than 27 years of service offsets additional actuarial costs associated with members with 27 or more years of service. As a result, HB 988 is cost neutral.

Other Post Retirement Benefits

Actuarial costs for post-retirement benefits other than pensions will decrease as a result of HB 988 to the extent that employers provide such benefits. Some members will be induced to work a couple more years in order to receive the benefits offered by HB 988. As a result, premiums associated with post-employment benefits will not be paid and actuarial costs will decrease.

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Analysis of Fiscal Costs

HB 988 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from FRS (Agy Self-Generated) will increase regardless of whether or not HB 988 induces firefighters with 27 or more years of service to work longer. In either event, benefit payouts to members in DROP affected by HB 988 will increase.
2. Expenditures from FRS (Agy Self-Generated) will decrease to the extent that the provisions of HB 988 will encourage firefighters with less than 27 years of service to work longer before entering DROP.
3. These expenditures offset on another and the net effect on fiscal costs is negligible.
4. Expenditures from Local Funds will decrease to the extent that members work longer and delay the start of employer subsidized post-employment benefits other than pensions.

Revenues:

1. Changes in Revenues to FRS (Agy Self-Generated) will be negligible.

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 \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