2012 REGULAR SESSION
ACTUARIAL NOTE HB 1174

House Bill 1174 HLS 12RS-1820
Reengrossed with House Floor Amendment #3845

Author: Representative Michael E. Danahay
Date: May 21, 2012

LLA Note HB 1174.03

Organizations Affected:
Municipal Police Employees' Retirement System (MPERS)

RE DECREASE APV

The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.

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Bill Header: RETIREMENT/STATE-STWIDE: Establishes "Hazardous Duty" and "Non-Hazardous Duty" subplans in the Municipal Police Employees' Retirement System

Cost Summary:

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

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	Decrease
Other Post Retirement Benefits	$0
Total	Decrease

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	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	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	0	0	0	0	0
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Bill Information:

Current Law

Current law provides for membership in the Municipal Police Employees Retirement System (MPERS). All members of MPERS are covered under a single set of benefit provisions.

Proposed Law

HB 1174 pertains to members of MPERS who are first employed on or after January 1, 2013. Members first employed on or after this date will be separated into two categories – Hazardous Duty members and Non-Hazardous Duty members defined as follows:

1. Hazardous Duty Members – members who by virtue of their position are entitled to receive state supplemental pay.

2. Non-Hazardous Duty – members who by virtue of their position are not entitled to receive state supplemental pay.

Benefit structures for Hazardous Duty and Non-Hazardous Duty members of MPERS first employed on or after January 1, 2013 are compared below.

MPERS

Plan Provisions	**Hazardous Duty**	**Non Hazardous Duty**
Employee Contribution Rate	10.0% of pay, but will be reduced to as low as 7.5% should the total contribution rate decrease in future years.	8.0%, or if less, the rate applicable to Hazardous Duty
Eligibility for Early Retirement	Any age with 20 years of service with benefit actuarially reduced.	Any age with 20 years of service with benefit actuarially reduced.
Eligibility for Unreduced Retirement	• Any age with 25 years of service • Age 55 with 12 years of service	• Any age with 30 years of service • Age 55 with 20 years of service • Age 60 with 10 years of service
Final Average Compensation	60 month average of compensation 15% anti-spiking rule	60 month average of compensation 15% anti-spiking rule
Benefit Formula	*If retirement occurs with less than 30 years of service:* [3% x years of service in a hazardous duty position + 2.5% x years of service in a non-hazardous duty position] x FAC *If retirement occurs with more than 30 years of service:* [3 1/3% x years of service in a hazardous duty position + 2.5% x years of service in a non-hazardous duty position] x FAC	[3% x years of service in a hazardous duty position + 2.5% x years of service in a non-hazardous duty position] x FAC
Disability – Line of Duty	*Eligibility:* Any age regardless of service. *Benefit Formula:* 2.75% x years of service x FAC, but no less than 33% x FAC or more than 55% x FAC. *Special Benefit:* Any disability retiree who is in a coma, is a paraplegic, is blinded, or loses total use of a limb shall receive a benefit equal to his FAC.	*Eligibility:* Any age regardless of service. *Special Benefit:* Any disability retiree who is in a coma, is a paraplegic, is blinded, or loses total use of a limb shall receive a benefit equal to his FAC.

Plan Provisions	**Hazardous Duty**	**Non Hazardous Duty**
Disability – Not in Line of Duty	*Eligibility:* Any age with 10 or more years of service *Benefit Formula:* 2.75% x years of service x FAC, but no less than 33% x FAC or more than 55% x FAC.	*Eligibility:* Any age with 10 or more years of service *Benefit Formula:* 2.25% x years of service x FAC, but no less than 25% x FAC or more than 50% x FAC.
Surviving Spouse Benefits – Line of Duty	*Eligibility:* Any age regardless of service. *Benefit Formula:* Benefit = 100% x FAC - Benefit for Surviving Children Benefit continues to spouse even upon remarriage.	*Eligibility:* Any age regardless of service. *Benefit Formula:* Benefit = 100% x FAC - Benefit for Surviving Children Benefit continues to spouse even upon remarriage.
Surviving Spouse Benefit – Not in Line of Duty	*Eligibility:* Any age with 10 years of service *Benefit Formula:* Benefit = Regular Benefit Formula, but no less than 33% or more than 55% x FAC. Benefit to spouse is discontinued upon remarriage unless remarriage occurs after age 60.	*Eligibility:* Any age with 10 years of service *Benefit Formula:* Benefit = Regular Benefit Formula, but no less than 25% or more than 50% x FAC. Benefit to spouse is discontinued upon remarriage unless remarriage occurs after age 60.
Surviving Dependent Children's Benefit (does not depend on how death occurred)	*Eligibility:* Any age with 10 years of service. *Benefit Formula:* With a surviving spouse: Benefit = The greater of 10% x FAC or $200 a month, per child. Total survivor benefit when added to the surviving spouse benefit may not exceed 100% x FAC With no surviving spouse: Benefit = The greater of 25% x FAC per child for a maximum total benefit of 50% x FAC. If there is only one surviving child, the benefit shall be 30% x FAC.	*Eligibility:* Any age with 10 years of service. *Benefit Formula:* With a surviving spouse: Benefit = The greater of 10% x FAC or $200 a month, per child. Total survivor benefit when added to the surviving spouse benefit may not exceed 100% x FAC With no surviving spouse: Benefit = The greater of 20% x FAC per child for a maximum total benefit of 50% x FAC. If there is only one surviving child, the benefit shall be 25% x FAC.

Implications of the Proposed Changes

Future members of MPERS who are employed in positions that are considered to be non-hazardous will accrue benefits at a lower benefit accrual rate (2.5% per year of service) than members employed in hazardous duty roles (3.0% per year of service). Hazardous duty personnel will become eligible for unreduced retirement benefits at an earlier age than non-hazardous duty personnel.

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<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

There is very little factual information by which to assess actuarial savings that may occur as a result of HB 1174. However, it is known that a relatively small percentage of the membership of MPERS are employed in positions that are not eligible for state supplemental pay, which HB 1174 uses to differentiate non-hazardous duty personnel from hazardous duty employees.

Because HB 1174 provides lower benefit accrual rates and later retirement ages for non-hazardous duty personnel than for hazardous duty members, the cost of funding the retirement system in the future will be less than it is currently. Precise measurements of the savings cannot be determined.

Other Post Retirement Benefits

There will be actuarial savings associated with HB 1174 for post-employment benefits other than pensions to the extent that future non-hazardous duty personnel will have to wait longer to retire.

Analysis of Fiscal Costs

HB 1174 will have the following effects on fiscal costs.

Expenditures:

1. Expenditures for MPERS (Agy Self-Generated) will decrease during the fiscal measurement period to the extent that refunds of employee contributions for non-hazardous duty personnel will be less than without the enactment of HB 1174.

2. Expenditures from Local Funds will decrease because employer contribution requirements will be reduced.

Revenues:

1. MPERS revenues (Agy Self-Generated) will be reduced because employee contributions for non-hazardous duty personnel will be smaller, and because employer contribution requirement will decrease.

<u>Actuarial Credentials:</u>

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.

<u>Dual Referral:</u>

<u>Senate</u>	**<u>House</u>**
☐ 13.5.1 ≥ $100,000 Annual Fiscal Cost	☐ 6.8(F) ≥ $500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change	☐ 6.8(G) ≥ $500,000 Annual Tax or Fee Change