

2012 REGULAR SESSION  
ACTUARIAL NOTE HB 38

|                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                     |
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| <b>House Bill 38 HLS 12RS-248 Enrolled</b><br><br><b>Author: Representative Sam Jones</b><br><b>Date: May 24, 2012</b><br><br><b>LLA Note HB 38.03</b><br><br><b>Organizations Affected:</b><br><b>Any State, Municipal, or Parochial Retirement System.</b><br><br><b>EN DECREASE 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 SYSTEMS: Provides relative to certain rehired retirees.

**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.

|                                            |                                                                                   |
|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                            | <b><u>Increase (Decrease) in</u></b><br><b><u>The Actuarial Present Value</u></b> |
| <b><u>Actuarial Cost (Savings) to:</u></b> |                                                                                   |
| 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 | Decrease | Decrease | Decrease | Decrease | Decrease  | Decrease     |
| 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        | 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 | 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 that a member, or an eligible survivor of a member, of a retirement system, may combine years of service in different state, municipal, and parochial retirement systems so that the employee or survivor may attain eligibility for retirement, disability, or survivor benefits.

## **2012 REGULAR SESSION ACTUARIAL NOTE HB 38**

Current law provides that each retirement system shall pay the benefits due to a member for benefit service credits earned in such retirement system. It further provides that no retiree collecting benefits under the reciprocal recognition of benefits provisions of R.S. 11:142 shall receive benefits from any other retirement system while he is reemployed after retirement in a position covered by a state, municipal or parochial system.

### **Proposed Law**

Under HB 38, if a retiree returns to active service in any state, municipal, or parochial system, he will be required to list on his employment application all Louisiana public retirement systems from which he is receiving benefits. The employer will provide a copy of the employment application to all such retirement systems within 10 days of retiree's employment. Then it will be the responsibility of the retirement system, under which the retiree becomes a member, to notify all other retirement systems so that any benefit payments payable to the member can be stopped.

HB 38 also provides that any member of the Municipal Employees' Retirement System who had paid into MERS for at least 15 years, who was also a member of LASERS and had paid into that system for at least 3.5 years, who had retired under a reciprocal retirement agreement prior to July 1, 2012, and who had erroneously received retirement benefits while reemployed, shall not have to refund the benefits he received in error.

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

HB 38 imposes on the retirement system in which a rehired retiree becomes a member the responsibility for notifying all other retirement systems when such a retiree returns to work. It appears that HB 38 will also forgive benefit payments made in error, under the universal reciprocity rules applicable to all public retirement systems in Louisiana, to one or more individuals who participated in both LASERS and MERS.

### **Cost Analysis:**

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

##### **Retirement Systems**

Actuarial savings will occur relative to the provision of HB 38 imposing an obligation on a retirement system to notify all other systems when a rehired retiree becomes a member. Apparently, there are currently rehired retirees who are collecting retirement benefits even though they shouldn't be under the reciprocity rules of R.S. 11:142. Actuarial savings will occur to the extent that such payments will be avoided in the future. The amount of actuarial savings cannot be determined.

Actuarial costs will occur to the extent that HB 38 allows a member, or members, of MERS to avoid paying back to either LASERS or MERS amounts that wouldn't have been paid to them had the rules of R.S.142 been followed. The amount of the additional actuarial cost cannot be determined.

The net actuarial cost or savings cannot be determined.

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

There are no actuarial costs associated with HB 38 for post-retirement benefits other than pensions.

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

Changes in fiscal costs are summarized below:

##### **Expenditures:**

1. Expenditures from the General Fund will decrease to the extent that employer contribution requirements will be reduced because retirement systems will be able to keep from paying benefits that should not be paid.
2. Expenditures from General Fund will increase to the extent that employer contribution requirements will be larger in the future because LASERS will not receive a refund of benefit payments made erroneously to rehired retirees.
3. Expenditures from state, parochial and municipal retirement systems in Louisiana (Agy Self-Generated) will decrease to the extent that the retirement systems will be able to prevent additional rehired retirees from collecting pension when they should not be collecting.
4. Expenditures from Local Funds will decrease to the extent that employer contribution requirements will be reduced because retirement systems will be able to keep from paying benefits that should not have been paid.
5. Expenditures from Local Funds will increase to the extent that employer contribution requirements will be larger in the future because MERS will not receive a refund of benefit payments made erroneously to rehired retirees.

##### **Revenues:**

1. Revenues to state, parochial and municipal retirement systems in Louisiana (Agy Self-Generated) will decrease to the extent that employer contribution requirements will be reduced because retirement systems will be able to prevent additional rehired retirees from collecting pensions when they should not be collecting.

2012 REGULAR SESSION  
ACTUARIAL NOTE HB 38

- 2. Revenues to LASERS and MERS (Self-Generated) will increase to the extent that employer contribution requirements will be increased because the retirement systems will not be able to collect benefit payments made in error.
- 3. Revenues to LASERS and MERS (Self-Generated) will decrease to the extent that refunds to the retirement systems that should have been collected as a result of erroneous benefit payment will not be collected.

Based on the information provided by LASERS, TRSL, LSERS, STPOL, CCRS, and PERS, administrative costs are expected. Two systems, TRSL and LSERS, report one time implementation costs of \$16,940 and \$5,000 respectively.

**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:**

| <u>Senate</u>                                                        | <u>House</u>                                                         |
|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <input type="checkbox"/> 13.5.1 ≥ \$100,000 Annual Fiscal Cost       | <input type="checkbox"/> 6.8(F) ≥ \$500,000 Annual Fiscal Cost       |
| <input type="checkbox"/> 13.5.2 ≥ \$500,000 Annual Tax or Fee Change | <input type="checkbox"/> 6.8(G) ≥ \$500,000 Annual Tax or Fee Change |