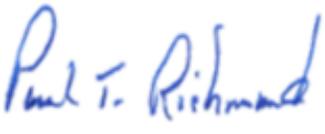


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 39**

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| <p>House Bill 39 HLS 13RS-337 Engrossed with Senate Legislative Bureau Amendment #2229</p> <p>Author: Representative Stuart Bishop Date: May 23, 2013</p> <p>LLA Note HB 39.03</p> <p>Organizations Affected: Louisiana Assessors' Retirement System</p> <p>EGF -\$800,000 FC LF EX</p> | <p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 39 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div> |
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Bill Header: RETIREMENT/ASSESSORS: Provides relative to retirement eligibility and benefits for new members of the La. Assessors' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

| | |
|--|--------------|
| Actuarial Cost/(Savings) to Retirement Systems and OGB | Decrease |
| Total Five Year Fiscal Cost | |
| Expenditures | \$ (800,000) |
| Revenues | \$ (800,000) |

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

| Actuarial Cost/(Savings to: | <u>Change in the Actuarial Present Value</u> |
|---|---|
| All Louisiana Public Retirement Systems | Decrease |
| Other Post Retirement Benefits | Decrease |
| 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. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

| EXPENDITURES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 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 | (80,000) | (160,000) | (240,000) | (320,000) | (800,000) |
| Annual Total | \$ 0 | \$ (80,000) | \$ (160,000) | \$ (240,000) | \$ (320,000) | \$ (800,000) |

| REVENUES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-2018 | 5 Year Total |
|--------------------|----------------|----------------|----------------|----------------|------------------|---------------------|
| State General Fund | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Agy Self Generated | 0 | (80,000) | (160,000) | (240,000) | (320,000) | (800,000) |
| 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 | \$ 0 | \$ (80,000) | \$ (160,000) | \$ (240,000) | \$ (320,000) | \$ (800,000) |

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Bill Information:

Current Law

Current law establishes the Louisiana Assessors' Retirement Fund (ASSR).

Under current law, a member must attain the age and service amounts below in order to retire.

1. A member may retire at age 55 if he has 12 years of service.
2. A member may retire at any age if he has 30 or more years of service.

A member will receive a monthly retirement benefit based on the following formula:

- $3 \frac{1}{3}\% \times \text{Final Compensation} \times \text{Years of Service}$

Final compensation is the monthly final average compensation based on the following:

1. If first employed on or before September 30, 2006: 36 highest compensated months of employment
2. If first employed on or after October 1, 2006: 60 highest compensated months of employment

Proposed Law

HB 39 creates a new tier of benefits in ASSR for members who are first employed on or after October 1, 2013.

Under HB 39, a member first employed on or after October 1, 2013, must attain the age and service amounts below in order to retire.

1. A member may retire at age 60 if he has 12 years of service.
2. A member may retire at age 55 if he has 30 or more years of service.

A member first employed on or after October 1, 2013, will receive a monthly retirement benefit based on the following formulas:

1. With less than 30 years of service: $3\% \times \text{Final Compensation} \times \text{Years of Service}$
2. With at least 30 years of service: $3 \frac{1}{3}\% \times \text{Final Compensation} \times \text{Years of Service}$
3. In addition, transferred service with an accrual rate less than $3 \frac{1}{3}\%$ shall not be used to meet the requirement of 30 or more years of service unless the member has upgraded such transferred service.

The number of months of earnings included in the calculation of final average compensation for a member first employed on or after October 1, 2013, will be 60 months. This is the same period as for members first employed between October 1, 2006 and September 30, 2013.

Implications of the Proposed Changes

HB 39 creates a new tier of benefits in ASSR for members who are first employed on or after October 1, 2013. The proposed law establishes new retirement eligibilities, benefit accrual rate. The final average compensation period remains at 60 months.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

The actuarial present value of future benefit payments pertaining to future members of ASSR will decrease as a result of HB 39. However, savings will not begin to be recognized until new members first employed on or after October 1, 2013 begin to replace current active members.

HB 39 has no effect on accrued liabilities because it applies to members who will be first employed on a future date and because the funding method used by the actuary does not produce an accrued liability.

G.S. Curran and Company, LTD. has estimated the employer contribution rate will be 1.96% of payroll less than what it would have been without HB 39 once all existing members have been replaced with new members. By the end of the five year fiscal measurement period, it is estimated that employer contribution requirements will be 0.82% less. Component costs are summarized below:

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| Change in | Reduction in Employer Contribution Requirements | |
|--------------------------|---|--|
| | At the End of the 5 Year Fiscal Measurement Period | When All Existing Members Are Replaced with New Members |
| Eligibility Requirements | 0.28% | 0.50% |
| Benefit Accrual Rate | 0.54% | 1.46% |
| Total | 0.82% | 1.96% |

The above estimates are based on the September 30, 2011 actuarial valuation for ASSR.

We estimate employer contribution requirements to ASSR will decrease by the following amounts over the fiscal measurement period.

| Fiscal Year | Decrease in Employer Contribution Requirements |
|--------------------|---|
| 2013-14 | \$0 |
| 2014-15 | 80,000 |
| 2015-16 | 160,000 |
| 2016-17 | 240,000 |
| 2017-18 | 320,000 |

Other Post Retirement Benefits

HB 39 should reduce actuarial costs associated with post-employment benefits other than pensions for future members of ASSR. Members will retire later than they would have otherwise and, as a result, the liability associated with these benefits will decrease.

Analysis of Fiscal Costs

HB 39 will have the following effect on fiscal costs during the five year measurement period.

Expenditures:

- Expenditures from Local Funds will decrease in accordance with the table shown above under Analysis of Actuarial Costs.

Revenues:

- Revenues for ASSR (Agy Self-Generated) will decrease in accordance with the table shown above under Analysis of Actuarial Costs.

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