2021 REGULAR SESSION
ACTUARIAL NOTE HB 29

House Bill 29 HLS 21RS-306 Reengrossed **Author: Representative Jefferson** **Date: May 10, 2021** **LLA Note HB 29.03** **Organizations Affected:** **Firefighters' Retirement System** **RE DECREASE APV**	**This Note has been prepared by the Actuary for the Louisiana Legislative Auditor (LLA) with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office (LFO). The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.**	
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Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to Firefighters' Retirement System's Deferred Retirement Option Plan and unfunded accrued liability.

Cost Summary:

The estimated net actuarial and fiscal impact of this proposed legislation on the retirement systems and their plan sponsors is summarized below. Net Actuarial Present Values pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system[1]***. Net fiscal costs or savings pertain to changes to all cash flows over the next five-year period including retirement system cash flows, OPEB cash flows, or cash flows related to local and state government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "Decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***net actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows (i.e., contributions, benefit payments, and administrative expenses).

Net Actuarial Present Values Pertaining to:		**Net Actuarial Present Values**
The Retirement Systems		Decrease
Other Post-employment Benefits (OPEB)		0
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems – Agy Self Generated	Decrease	Decrease
Other Post-employment Benefits (OPEB)	0	0
Local Government Entities	Decrease	0
State Government Entities	0	0
Total	Decrease	Decrease

Bill Information

HB 29 addresses three different subjects, each of which is described below under Current Law, Proposed Law and Implications.

Current Law

The current laws for the provisions affected by HB 29 are:

1. Deferred Retirement Option Plan (DROP) Participation

   Current law provides that members of the Firefighters' Retirement System (FRS) may retire provided they have:

   a. At least 12 years of creditable service and are at least age 55, or
   b. At least 20 years of creditable service and are at least age 50, or
   c. At least 25 years of creditable service, regardless of age.

   Rather than retire when eligible, members may elect to enter the DROP if they have at least 20 years of creditable service. Current law provides that they may remain in the DROP for a period of up to three years.

[1] **Note:** This is a different assessment from the actuarial cost relating the 2/3 vote (refer to the section near the end of this Actuarial Note "Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution").

Current law provides that the average final compensation (AFC) of members of FRS is calculated based on a 36-month period when the compensation was the highest, with year over year increases in compensation limited to 115%.

Under current law, while a member is participating in the DROP, no employee or employer contributions are made in relation to his salary. However, in the event a member remains in covered employment after the 36-month DROP period ends, he continues to earn additional accruals for each year of creditable service thereafter, while employee and employer contributions are resumed. If he earns less than three years of such additional accruals, the AFC for those additional years remains at the AFC calculated at the time he entered the DROP. However, if he earns three years or more of such additional accruals, his AFC is recalculated as of the date of subsequent actual retirement and applicable to those additional years.

2. Method of Financing

Entities employing members of the Firefighters' Retirement System are responsible for remitting contributions to appropriate funds. Current law allows FRS to add interest to delinquent amounts, based on the greater of the actuarial valuation rate or the actual rate of earnings on the system's investment portfolio.

3. Dissolution of Fire Departments

FRS is a multiple employer defined benefit pension plan providing retirement benefits for employees of employers electing to participate in the system. The following employers may participate in FRS: FRS (as an employer of staff employees) and any municipality, parish, or fire protection district in the state of Louisiana, excepting Orleans and Lafayette Parishes, which employs a full-time fireman.

Current law provides for FRS to recover delinquent payments by action in a court of competent jurisdiction against a political subdivision or instrumentality liable for the payments.

4. Assignment of Employee Contributions

Current law allows a member of FRS to assign his accumulated contributions to a designated credit union in consideration of a loan, provided he has less than twelve years of creditable service. If the member leaves employment, the accumulated employee contributions are required to be paid to the designated credit union.

The credit union applies the refund of contributions to the balance of the loan, and any surplus is returned to the member.

Proposed Law

The provisions under HB 29 corresponding to the above current laws are:

1. DROP Participation

HB 29 retains the provision for a DROP period of up to three years for all members. In addition, it allows members with at least 30 years of creditable service to select a DROP period of up to five years. However, the AFC of a member who selects a DROP period longer than three years will be calculated based on a 60-month period rather than a 36-month period.

A current DROP participant with at least 30 years of creditable service will also be allowed to select a longer participation period, up to five years, and apply the 60-month AFC period.

HB 29 continues the same rules as the current law for accrual of additional benefits after the DROP period has expired, except for the use of a 60-month AFC for those who select the longer DROP period.

The selection by the member regarding the duration of participation in the DROP is irrevocable.

2. Method of Financing

In addition to assessing interest on amounts due prescribed under the current law, HB 29 provides for recovery of reasonable attorney fees and court costs to amounts due which are based on:

- Delinquent contributions, and
- Concursus proceedings instituted pursuant to C.C.P. Art. 4651 et seq., wherein FRS is named as a party.

3. Dissolution of Fire Departments

HB 29 provides that if an employer fully dissolves its fire department, then beginning the first July following the dissolution, the employer will pay the department's proportionate share of the System's net pension liability (NPL).

A fire department will be considered partially dissolved if either: (i) the number of participating employees decreases by at least 30% (and by at least three employees) from one June 30th to the next or (ii) the number of participating employees decreases by at least 50 employees from one June 30th to the next. If an employer partially dissolves its fire department, it will pay a pro rata portion of the system's UAL in addition to its required contribution based on its remaining membership. A local government need not make a conscious decision to partially dissolve its fire department (or to merge or subcontract with another government for fire protection service) for the provisions in HB 29 to apply. The two conditions above define "partial dissolution" with the resultant funding requirements, whether by reason of a conscious decision to partially dissolve or by operational roll-backs in workforce.

The NPL associated with full or partial dissolution due to the system will be determined by the system's actuary using the rules for employer *accounting and financial reporting* issued by the Governmental Accounting Standards Board (GASB) and amortized over 15 years in equal payments.

If the number of employees of a partially dissolved fire department returns back to the number participating prior to the withdrawal, payments will cease, and payments made will be credited as an offset to any amount due by the employer attributable to any subsequent withdrawal that occurs within 15 years of the payments.

If an employer fails to make a payment in a timely manner, in addition to continued authorization under the current law for FRS to collect delinquent amounts by action against the employer in a court of competent jurisdiction, HB 29 extends FRS's recovery options by having the state treasurer deduct monies payable to the employer and remit said monies directly to the system.

Assignment of Employee Contributions

HB 29 provides that if a member has 12 or more years of creditable service with a valid assignment of employee contributions and dies without a survivor who is entitled to his benefits, payment of the accumulated employee contributions will be made to the designated credit union.

Implications of the Proposed Changes

The implications of the above provisions under HB 29 affecting the current laws are:

1. DROP Participation: Members with at least 30 years of creditable service who want to have a DROP period longer than 36 months, may select that option under HB 29 in exchange for having a longer AFC averaging period and therefore a reduction in benefits.

   The DROP period election is irrevocable, which for the purpose of this Actuarial Note is interpreted to mean that determination of the AFC averaging period is based on which DROP period is *chosen* rather than on how long a member *actually participate*s in the DROP. For example, if a member chooses to enter the DROP for 60 months, but ends up separating at 36 months, his benefit would be determined using a 60-month averaging period.

2. Method of Financing: FRS will be allowed to collect reasonable attorney fees and court costs when recovering delinquent contributions, as well as amounts due when FRS is named as a party in any concursus proceeding instituted pursuant to C.C.P. Art. 4651 et seq.

3. Dissolution of Fire Departments: An employer participating in FRS will become responsible for its portion of the FRS NPL should it completely or partially dissolve its fire department, whereas under current law it has no such continuing responsibility.

4. Assignment of Employee Contributions: Certain payments of accumulated employee contributions may be made to firefighter credit unions under HB 29 in the event of death, in addition to termination under current law.

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

A. Analysis of Net Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to net actuarial present value costs or savings associated with the retirement systems and with OPEB.

1. Retirement Systems

The net actuarial cost or savings of the proposed legislation associated with the retirement systems is estimated to be a decrease in cost. The actuary's analysis is summarized below.

DROP Participation: According to the most recent actuarial valuation report, there were 72 active members with 30 or more years of creditable service as of June 30, 2020, and 299 with 25-29 years, 516 with 20-24 years, and 606 active members with 15-19 years of creditable service. Under this part of HB 29, some of the 72 currently eligible members might select the 5-year DROP period (with the 60-month AFC) and some of the others might so select if and when they reach 30 years of creditable service.

However, the perceived benefit of a longer DROP period comes with a price: a reduced monthly benefit because of the longer AFC period. In fact, for those who select the 5-year DROP period upon reaching 30 years of creditable service, the feature of being in the DROP for five years is more than offset by the cost of doing so, i.e., the use of the 60-month AFC.

The lower AFC (a) reduces the monthly benefits paid into the DROP account even if paid-in for five years instead of only three years and (b) reduces the subsequent lifetime benefit upon actual retirement. A longer DROP period diminishes the effect of the benefit reduction for members.

Members do not actually derive greater financial benefits as a result of the adoption of HB 29. To the extent members elect a DROP period in excess of three years, the actuarial present value of benefits is expected to decrease under HB 29.

Method of Financing: HB 29 will likely provide a greater incentive for employers to make the required contributions and to pay amounts due to concursus proceedings in a timely manner, but is not expected to change the cost of the system.

Dissolution of Fire Departments: This part of HB 29 imposes a withdrawal liability on employers that satisfy the conditions for full or partial dissolution, as defined in the proposed law. This will not change the amount of benefits payable to members. It will, however, prevent cost-shifting of the financial responsibility for the remaining obligation from the withdrawing employer(s) to the remaining employers.

HB 29 causes the withdrawing employer to bear an ongoing funding burden with respect to the exiting members; whereas under current law, there is no such burden remaining for the withdrawing employer with respect to the exiting members even though the System may be less than 100% funded (by any reasonable measure).

HB 29 holds the withdrawing employer responsible for continued funding of an approximate measure of its ongoing obligation. However, the NPL described in HB 29 does not match the System's remaining liability for the exiting members being funded through the System. The proposed bill relies on the proportionate share of the total NPL for the withdrawing employer to pay over time. This employer-specific NPL established under the proposed law is based on the calculations required by *accounting and financial reporting* rules issued by the GASB for the employer's financial statements before it withdraws, which are different from the rules employed by the statutes for *funding* the plan for a withdrawing employer under the current law.

Full or partial dissolution under current law

Consider the effects on an employer and on the System, resulting from an employer withdrawing some or all of its active employees under current law. The employer makes no more contributions to the System in relation to the exiting employees: neither the ongoing normal cost component nor the ongoing unfunded actuarial liability amortization payment component. Even though the System collects no more contributions from the withdrawing employer in relation to the exiting employees, it retains the obligation to pay the future benefits earned by the withdrawing employer's current retirees, any vested terminated employees and the vested benefits earned by the exiting employees (sometimes called the *actuarial present value of accrued benefits*).

If the System already had sufficient total assets to cover the total actuarial present value of all its members' vested benefits, then the System would have no need for additional contributions from a withdrawing employer with respect to its exiting employees based on actuarial expectations (except that the System has no recourse to collect from the withdrawing employer in the event that there are actuarial losses due to actual investment and other experience differing from what was assumed). On the other hand, if the System does not already have sufficient assets to cover the total actuarial present value of all its members' vested benefits, it has unfunded vested benefits (UVB); and the System loses a source of revenue to complete the financing of its obligation to exiting members of the System, regardless of how the obligation is calculated.

Full or partial dissolution under HB 29

Consider the effects on an employer and on the System, resulting from an employer withdrawing under the proposed law. It requires the System to set up an additional employer-specific liability to amortize and receive payments over time. The withdrawing employer is required to pay off that newly established amortization base. For full dissolutions, these amortization payments continue to be required even though there are no regular employer contributions remaining to be paid to FRS. For partial dissolutions, these amortization payments are required in addition to the regular employer contribution requirements made with respect to remaining covered employees.

There are a number of ways to measure the obligation, whether it is the UVB, or the ongoing *accounting* NPL or the unfunded actuarial liability using the System's current actuarial cost method (the Frozen UAL). While the amount of the proportionate NPL established in this part of HB 29 for amortization is not an exact representation of the obligation for exiting employees it is a convenient estimate.

This provision of HB 29 results in a significant increase in contributions from the withdrawing employer after a full or partial dissolution, as compared to current law. Conversely, it is expected to result in a similar level of decrease in aggregate contributions from all other FRS-participating local governments, as compared to current law. This assumes the System's actuary would reduce the frozen UAL financed by all other participating employers by the newly established employer-specific frozen UAL (equal to the employer's proportionate share of the total NPL) financed by the withdrawing employer. No member's benefit changes as a result of this part of HB 29.

Assignment of Employee Contributions: This provision is not expected to result in a change in the amount of benefits payable and is not expected to have an actuarial cost.

2. Other Post-employment Benefits (OPEB)

The net actuarial cost or savings of the proposed legislation associated with OPEB, including retiree health insurance premiums, is estimated to be $0. The actuary's analysis is summarized below.

The actuarial cost of the proposed bill on OPEB, including eligibility conditions and retiree health insurance subsidies, is being treated as no cost for the purpose of this Actuarial Note. Post-employment health benefit programs for the covered employees of an entity depend on the provisions for such benefits within the employer-entity, not necessarily on their participation or benefits in the retirement system. Any OPEB program sponsored by an entity would have its own eligibility conditions and benefit subsidies. While this proposed bill affects the terms of participation or benefits of the retirement system, it does not directly affect the entity's eligibility conditions for commencing OPEB benefits or the level of OPEB subsidies provided. Information regarding all the local municipal entities' OPEB eligibilities and subsidies is not available and is outside the scope of this Actuarial Note. Any change in OPEB benefit eligibility or subsidy would be the decision and action of the entity itself. Therefore, the actuarial cost of the proposed bill relative to post-employment benefits is considered $0.

B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)

Unless indicated otherwise, the actuarial note for the proposed legislation was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by the Public Retirement Systems' Actuarial Committee (PRSAC). The data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees. With certain exceptions, the actuary for the LLA finds the assumptions used by the retirement systems and PRSAC to be reasonable.

C. Actuarial Caveat
(Prepared by LLA)

There is nothing in the proposed legislation that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL IMPACT ON RETIREMENT SYSTEMS AND OPEB [Completed by LLA]

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems (Table A) and with OPEB (Table B). Fiscal costs or savings in Table A include benefit-related actuarial costs and administrative costs incurred by the retirement systems.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Retirement System Fiscal Cost: Table A

EXPENDITURES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**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	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	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	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated in the table.

The proposed legislation will have the following effects on retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures by FRS (Agy Self-Generated) will decrease to the extent DROP members select DROP periods longer than three years and are paid lower benefits and/or delay actual retirement. Expenditures by FRS are not affected by the other parts of HB 29.

   b. Expenditures from the Local Funds will decrease (i) to the extent that employer contribution rates decrease in response to the lower DROP and lifetime benefits and (ii) to the extent that members who would remain in covered employment after three years in DROP not have employer contributions paid on their salaries for the additional one or two years.

   c. Expenditures from all Local Funds will remain approximately the same as a result of the other parts of HB 29.

3. Revenues:

   a. FRS revenues (Agy Self-Generated) will decrease to the extent that DROP members select the 5-year DROP period and are paid lower benefits. FRS revenues will remain approximately the same as a result of the other parts of HB 29.

   b. FRS revenues (Local Funds) are not affected by HB 29.

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B. Estimated Fiscal Impact – OPEB
(Prepared by LLA)

1. Narrative

   Table B shows the estimated fiscal impact of the proposed legislation on actuarial benefit and administrative costs or savings associated with OPEB and the government entities that sponsor these benefit programs. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

OPEB Fiscal Cost: Table B

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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

   All expenditures for employer contributions are reflected on a single line in the table above. The actual sources of funding (e.g., Federal Funds, State General Fund) may vary by employer and are not differentiated on the table.

   The proposed legislation will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   No measurable effects.

3. Revenues:

   No measurable effects.

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]

This section of the actuarial note pertains to annual fiscal costs (savings) relating to administrative expenditures and revenue impacts incurred by local government entities other than those included in Tables A and B. See Table C.

Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)
(Prepared by Local Government Services, Legislative Auditor's Office)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal administrative cost impact of the proposed legislation on such local government entities. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Fiscal Costs for Local Government Entities: Table C

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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

The proposed legislation will have the following effects on fiscal administrative costs and revenues related to local government entities during the five year measurement period.

2. Expenditures

Proposed changes to DROP and AFC may impact the hiring and retention of future employees; however, any related cost increases or savings for employers are unknown and cannot be quantified.

3. Revenues:

No measurable effects.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES [Completed by LFO]

This section of the actuarial note pertains to annual fiscal cost (savings) relating to administrative expenditures and revenue impacts incurred by state government entities other than those included in Tables A and B. See Table D.

Estimated Fiscal Impact − State Government Entities (other than the impact included in Tables A and B)
(Prepared by Chris Keaton, Legislative Fiscal Officer)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on administrative expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal administrative cost impact of the proposed legislation on such state government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number. A revenue increase is denoted by “Increase” or a positive number. A revenue decrease is denoted by “Decrease” or a negative number.

Fiscal Costs for State Government Entities: Table D

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	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

The proposed legislation will have the following effects on fiscal costs and revenues related to state government entities during the five year measurement period.

2. Expenditures:

   N/A - This bill only impacts local government, and therefore, has no state impact. The LFO does not review local government bills.

3. Revenues:

   N/A - This bill only impacts local government, and therefore, has no state impact. The LFO does not review local government bills.

Credentials of the Signatory Staff:

James J. Rizzo and Piotr Krekora, on behalf of Gabriel, Roeder, Smith & Company, serve as the Actuary for the Louisiana Legislative Auditor. They are Enrolled Actuaries, members of the American Academy of Actuaries, Associates of the Society of Actuaries and have met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Actuarial Disclosure: Risks Associated with Measuring Costs

This Actuarial Note is an actuarial communication, and is required to include certain disclosures in compliance with Actuarial Standards of Practice (ASOP) No. 51.

A full actuarial determination of the retirement system's costs, actuarially determined contributions and accrued liability require the use of assumptions regarding future economic and demographic events. The assumptions used to determine the retirement system's contribution requirement and accrued liability are summarized in the system's most recent Actuarial Valuation Report accepted by the respective retirement board and by the Public Retirement Systems' Actuarial Committee (PRSAC).

The actual emerging future experience, such as a retirement fund's future investment returns, may differ from the assumptions. To the extent that emerging future experience differs from the assumptions, the resulting shortfalls (or gains) must be recognized in future years by future taxpayers. Future actuarial measurements may also differ significantly from the current measurements due to other factors: changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period; or additional cost or contribution requirements based on the system's funded status); and changes in plan provisions or applicable law.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns (assumptions);
2. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
3. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
4. Longevity and life expectancy risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
5. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed, resulting in actual future accrued liability and contributions differing from expected.

The scope of an Actuarial Note prepared for the Louisiana Legislature does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Note. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

However, the general cost-effects of emerging experience deviating from assumptions can be known. For example, the investment return since the most recent actuarial valuation may be less (or more) than the assumed rate, or a cost-of-living adjustment may be more (or less) than the assumed rate, or life expectancy may be improving (or worsening) compared to what is assumed. In each of these situations, the cost of the plan can be expected to increase (or decrease).

The use of reasonable assumptions and the timely receipt of the actuarially determined contributions are critical to support the financial health of the plan. However, employer contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

2021 REGULAR SESSION
ACTUARIAL NOTE HB 29

Information Pertaining to Article (10)(29)(F) of the Louisiana Constitution

☐ HB 29 contains a retirement system benefit provision having an actuarial cost.

No members of the Firefighters' Retirement System are expected to receive a larger benefit with the enactment of HB 29 than what they would have received without HB 29.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Tables A, B, C, and D for the first three years following the 2021 regular session.

Senate			**House**		
☐	13.5.1	Applies to Senate or House Instruments. If an annual fiscal cost ≥ $100,000, then bill is dual referred to: **Dual Referral: Senate Finance**	☐	6.8F	Applies to Senate or House Instruments. If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to: **Dual Referral to Appropriations**
☐	13.5.2	Applies to Senate or House Instruments. If an annual tax or fee change ≥ $500,000, then the bill is dual referred to: **Dual Referral: Revenue and Fiscal Affairs**	☐	6.8G	Applies to Senate Instruments only. If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to: **Dual Referral: Ways and Means**