OFFICE OF LEGISLATIVE AUDITOR
2023 REGULAR SESSION
ACTUARIAL NOTE

House Bill 34 HLS 23RS-134	**Date: April 3, 2023**
Original	**Organizations Affected: MERS**
Author: Bacala	
LLA Note HB 34.01	**OR NO IMPACT APV**

<u>Bill Header:</u> RETIREMENT/MUNICIPAL POL: Provides relative to the funding deposit account for Municipal Police Employees' Retirement System and authorizes the board of trustees of the system to modify employer contributions

<u>Purpose of Bill:</u> This bill is identical to HB 21 22RS, which became Act 360 of 2022. However, due to certain legal considerations beyond the scope of this Actuarial Note (AN), the language has been refiled in its entirety.

<u>The following is the Purpose of Bill included in the Actuarial Note for HB 21 22RS:</u>
This bill provides the opportunity for the Municipal Police Employees' Retirement System (MPERS) to set the employer contribution rate above the minimum rate otherwise determined under the law as it existed in 2021. As determined by the board at the time the rate is set, the excess contributions will be directly applied to reduce the outstanding balance of the oldest positive amortization base or will directed to a funding deposit account (FDA). The accumulated FDA account may be used solely to provide cost-of-living adjustments (COLAs), at the time and in the manner as directed by the MPERS Board, with advice from the MPERS actuary. The change in law also eliminates the opportunity for the MPERS board to authorize COLAs under any other statutory provision.

<u>Cost Summary[1]:</u> The estimated net actuarial and fiscal impact of the proposed legislation is summarized below.

The purpose of this Actuarial Note is to compare current law, as it is currently written, to changes made by proposed law and outline potential actuarial and fiscal impacts those changes could have. Therefore, absent any legal considerations, the expected change in the ***net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems*** from the proposed law is estimated to be $0. <u>However, because this bill is an identical refile of a bill that was enacted during the 2022 Regular Session, we feel it would be prudent to include the discussion of the actuarial impact of the prior bill.</u> That discussion can be found in Section I: <u>Actuarial Impact on Retirement Systems</u>.

Net Fiscal Costs pertain to changes to all cash flows over the next five-year period including retirement system cash flows or cash flows related to local and state government entities.

In the following table, expenditures and revenues include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation. A more detailed explanation can be found in Section II: <u>Fiscal Impact on Retirement Systems</u>.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	$ 0	$ 0
Local Government Entities	0	0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

In the following table, expenditures and revenues include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation and do not include cash flows to or from the affected retirement system (i.e. contribution changes included in the above table). This information, is provided by the LLA Local Government Services or the Legislative Fiscal Office. A more detailed explanation can be found in Sections III: <u>Fiscal Impact on Local Government Entities</u> and Section IV: <u>Fiscal Impact on State Government Entities</u>.

Five Year Net Fiscal Costs Pertaining to:	**Expenditures**	**Revenues**
Local Government Entities	$ 0	$ 0
State Government Entities	0	0
Total	**$ 0**	**$ 0**

[1] This is a different assessment from the actuarial cost requiring a 2/3rd vote (refer to the section near the end of this Actuarial Note "**<u>Information Pertaining to La. Const. Art. X, §29(F)</u>**").

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.	**Kenneth J. "Kenny" Herbold, ASA, EA, MAAA** **Director of Actuarial Services** **Louisiana Legislative Auditor**

2023 REGULAR SESSION
ACTUARIAL NOTE HB 34

I. ACTUARIAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note is intended to provide a brief outline of the changes in plan provisions and actuarial effect on key aspects of the affected retirement systems.

The purpose of this Actuarial Note is to compare current law, as it is currently written, to changes made by proposed law and outline potential actuarial and fiscal impacts those changes could have. This bill is an identical refile of HB 21 22RS, which became Act 360 of 2022. However, due to certain legal considerations beyond the scope of this AN, the language has been refiled in its entirety. While this bill would make some changes to the language currently in statute, absent any legal considerations, the expected change in the ***net actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems*** from the proposed law is estimated to be $0. Although we believe there is not an actuarial impact associated with the passage of this bill, given it is an identical refile of HB 21 22RS, we believe it is prudent to include the discussion of the actuarial impact from HB 2122RS.

The following is the actuarial impact included in the Actuarial Note for HB 21 22RS:

The net change in actuarial present value of expected future benefits and administrative expenses incurred by the retirement systems from the proposed legislation is estimated to be a decrease. However, contributions are expected to increase.

Current law includes a series of rules under which COLAs may be granted. These rules, outlined under La. R.S. 11:242, 246, and 11:2225(A)(7), are primarily tied to the system earning greater than the assumed rate of return in a given year before a COLA may be granted. Because these rules are tied to market returns, there is no clear mechanism for knowing with any certainty when a COLA may be granted. Further, there does not exist a mechanism for explicitly pre-funding these COLAs, contributions for a COLA commence after such an increase is granted. This results in confusion surrounding when a COLA is likely to be granted as well as how much the ultimate cost to employers will be.

Under the proposed bill, COLAs based on current statute are prohibited. Instead, the bill creates a Funding Deposit Account (FDA) for MPERS. Surplus contributions, defined as an employer contribution rate above the minimum required contribution, can be up to

0.85%, if the minimum required contribution is greater than or equal to the previous year, or
if the minimum contribution rate is less than the previous year
0.85% plus
one-half the difference between the otherwise minimum required contribution rate and the previous year's minimum required contribution rate.

Surplus contributions under items 1 or 2a can be used to either (a) reduce the outstanding balance of the oldest positive amortization base or (b) accumulate in the FDA until such time the board decides to grant a COLA solely from the funds in the FDA. Surplus contributions under item 2b must be used to reduce the outstanding balance of the oldest positive amortization base

While it may not be certain, it can be reasonably expected that the MPERS board of trustees will exercise its authority to fund the FDA by establishing contribution rates in the future that are higher than the minimum employer rate otherwise determined under current law. In addition, while it may not be certain, it can be reasonably expected that sometime after accumulating sufficient funds in the FDA, the MPERS board would then grant COLAs from the FDA balance. This approach allows for both pre-funding of any future COLAs through accumulation of funds in the FDA as well as the opportunity to exercise control over the expected cost of such COLAs by setting the surplus contribution rate and only granting COLAs FDA funds can reasonably support.

Given the length of time needed to accumulate sufficient FDA balances and the flexibility in granting increases from the FDA in subsequent years, the proposed bill can be reasonably expected to result in a decrease of actuarial costs over time. However, this bill provides the opportunity for the MPERS board to grant a retiree benefit increase that might not be available under current law, even though the net actuarial present value of benefits is a decrease

II. FISCAL IMPACT ON RETIREMENT SYSTEMS

This section of the actuarial note pertains to fiscal (annual) costs or savings associated with the retirement systems.

Fiscal costs or savings only include cash flows to or from the affected retirement system (e.g. administrative expenses incurred by, benefit payments from, or contributions to the retirement system) and do not include administrative expenditures and revenues specifically incurred by the state or local government entities associated with implementing the legislation.

The proposed law is not expected to have any additional effects on fiscal administrative costs and revenues associated with the retirement systems, other than those outlined above.

Table A: Retirement System Fiscal Cost

Expenditures	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**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	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**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**

III. FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES
(Prepared by LLA Local Government Services)

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

The proposed legislation is not expected to have any additional effects on fiscal administrative costs and revenues related to local government entities during the five-year measurement period, other than those outlined above.

IV. FISCAL IMPACT ON STATE GOVERNMENT ENTITIES
(Prepared by Legislative Fiscal Office)

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

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

V. ACTUARIAL DISCLOSURES

Intended Use

This actuarial note is based on our understanding of the bill as of the date shown above. It is intended to be used by the Legislature during the current legislative session only and assumes no other legislative changes affecting the funding or benefits of the affected systems, other than those identified, will be adopted. Other readers of this actuarial note are advised to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. The actuarial note, and any referenced documents, should be read as a whole. Distribution of, or reliance on, only parts of this actuarial note could result in its misuse and may mislead others. The summary of the impact of the bill included in this actuarial note is for the purposes of an actuarial analysis only, as required by La. R.S. 24:521, and is not a legal interpretation of the provisions of the bill.

Actuarial Data, Methods and Assumptions

Unless indicated otherwise, this actuarial note 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 assumptions and methods are reasonable for the purpose of this analysis.

For certain calculations that may be presented herein, we have utilized commercially available valuation software and/or are relying on proprietary valuation models and related software developed by our actuarial contractor. We made a reasonable attempt to understand the intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of these models. In our professional judgment, the models have the capability to provide results that are consistent with the purposes of the analysis and have no material limitations or known weaknesses. Tests were performed to ensure that the model reasonably represents that which is intended to be modeled.

To the extent that this actuarial note relies on calculations performed by the retirement systems' actuaries, to the best of our knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified. We did not audit the information provided, but have reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems.

Conflict of Interest

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

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. Risk disclosures otherwise required by ASOP No. 51 do not apply to this actuarial note because the proposed bill does not significantly change the types or levels of risks of the retirement system.

Certification

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

VI. LEGISLATIVE PROCEDURAL ITEMS

Information Pertaining to La. Const. Art. X, §29(F)

☐ This bill contains a retirement system benefit provision having an actuarial cost. No members of the Municipal Police Employees' Retirement System could receive a larger benefit with the enactment of this bill than what they would have received without this bill.

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

The information presented below is based on information contained in Sections II, III, and IV for the first three years following the 2023 regular session.

Senate

☐ 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

☐ 13.5.2 Applies to Senate or House Instruments
If an annual tax f or fee change ≥ $500,000, then bill is dual referred to:
Dual Referral: Revenue and Fiscal Affairs

House

☐ 6.8F Applies to Senate of House Instruments
If an annual General Fund fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Appropriations

☐ 6.8G Applies to Senate Instruments only
If a net fee decrease occurs or is an increase in annual fees and taxes ≥ $500,000, then bill is dual referred to:
Dual Referral: Ways and Means