2020 REGULAR SESSION
ACTUARIAL NOTE HB 20

House Bill 20 HLS 20RS-198 **Original** **Author: Representative Schamerhorn** **Date: March 3, 2020** **LLA Note HB 20.01** **Organizations Affected:** **Public Retirement Systems** **OR DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of 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.** **Lowell P. Good, ASA, EA, MAAA** **Actuarial Services Manager** **James J. Rizzo, ASA, EA, MAAA** **Senior Consultant & Actuary** **Gabriel, Roeder, Smith & Company**

Bill Header: RETIREMENT BENEFITS: (Constitutional Amendment) Provides relative to the retirement and insurance benefits of elected officials.

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 costs pertain to estimated changes in the ***net actuarial present value of future benefit payments and administrative expenses incurred by the retirement system***. 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 Costs (Liabilities) Pertaining to:		**Net Actuarial Cost**
The Retirement Systems		Decrease
Other Post-employment Benefits (OPEB)		Decrease
Total		Decrease
Five Year Net Fiscal Cost Pertaining to:	**Expenditures**	**Revenues**
The Retirement Systems	Decrease	Decrease
Other Post-employment Benefits (OPEB)	Decrease	0
Local Government Entities	Decrease	0
State Government Entities	Decrease	0
Total	Decrease	Decrease

Bill Information

Current Law

The Constitution of Louisiana does not explicitly prohibit the use of state and local public funds to pay for retirement contributions and life and health insurance premiums of elected public officials.

Article X, Section 23 of the Constitution states:

Section 23. The compensation of an elected public official shall not be reduced during the term for which he is elected.

Article X, Section 29(B) of the Constitution states:

(B) Other Officials and Employees. The legislature shall enact laws providing for retirement of officials and employees of the state, its agencies, and its political subdivisions, including persons employed jointly by state and federal agencies other than those in military service, through the establishment of one or more retirement systems. Membership in any retirement system of the state or of a political subdivision thereof shall be a contractual relationship between employee and employer, and the state shall guarantee benefits payable to a member of a state retirement system or retiree or to his lawful beneficiary upon his death.

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Proposed Law

HB 20 would place the following proposition on the ballot for the statewide election on November 3, 2020:

> Do you support an amendment to prohibit the use of public funds to pay for retirement contributions and insurance premiums for elected officials? (Adds Article X, Section 23.1)

Upon favorable passage by the electors, no state and local public funds would be able to be used to pay for retirement contributions or life and health insurance premiums of elected officials elected after January 1, 2021.

Implications of the Proposed Changes

If this proposition is approved, then there would be far-reaching transition implications for many of the statewide systems which now cover elected officials, including the following:

1. Some may consider this new Article X Section 23.1 to be in conflict with Article X Section 23 and may need amendments to clarify the relationship between the two.
2. There may be conflicts between individual system requirements that include elected officials as members, and this amendment to the Louisiana Constitution which would say no public funds can be used to pay retirement contributions, effectively excluding such employees from membership. Conforming legislation for various systems would likely be required to resolve certain conflicts.
3. If contributions are not to be made for this class of otherwise-eligible employees, membership in various retirement systems would likely need to be prohibited and accruals of benefits ceased for public officials elected to office after January 1, 2021.
4. With regard to elected public officials who are already members of state or statewide systems and are re-elected to office after January 1, 2021, questions arise concerning the benefits they have already accrued in such systems.
5. With respect to membership in various retirement systems by reason of employment in eligible positions, other than as an elected public official, members may become elected to office after January 1, 2021 separate and apart from their otherwise covered employment and questions arise concerning their rights to coverage by reason of their unelected position.
6. With regard to elected public officials whose employment is not covered under Social Security, there might be conflicts with federal law, which requires employees to be covered by Social Security unless they are enrolled in a qualified replacement plan.

These are not intended to be expressions of legal opinions, but solely observations that illustrate challenges to rendering a firm actuarial opinion.

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 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.

HB 20 would place a constitutional amendment on the ballot. If the amendment is approved by the voters in November, elected public officials elected on or after January 1, 2021, would likely not become active members of state or statewide retirement systems. So, there would likely be fewer members going into state and statewide systems that currently cover elected officials. In addition, any elected officials who are currently in such systems would only be able to continue membership until the end of their current terms in office. As a result, revenues into the systems would likely decrease, and benefits paid out of the systems would likely decrease.

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 expected to be a decrease in cost, subject to any conforming legislation. The actuary's analysis is summarized below.

The liability for post-retirement medical insurance subsidies provided to retirees is expected to decrease because future elected public officials would likely not become eligible for retirement in any state or statewide retirement system and therefore, would not likely become eligible for retiree health subsidies under the employers' current benefit rules. Furthermore, the proposed bill precludes the payment of life or health insurance premiums with public funds on behalf of an elected public official.

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	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
State General Fund	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	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

The actual sources of funding for employer contributions (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 retirement related fiscal costs and revenues during the five year measurement period.

2. Expenditures:

   a. Expenditures of a number of state and statewide systems (Agy Self-Generated) are expected to decrease since the number of members would be reduced.

   b. Expenditures by participating employers are expected to decrease since the employer contribution requirements are expected to decrease as the number of members is reduced.

3. Revenues:

State and statewide system revenues (Agy Self-Generated) are expected to decrease since employer contribution requirements are expected to decrease as the number of members is reduced.

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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**5 Year Total**
State General Fund	$ 0	$ 0	Decrease	Decrease	Decrease	Decrease
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	Decrease	Decrease	Decrease	Decrease
Annual Total	$ 0	$ 0	Decrease	Decrease	Decrease	Decrease

REVENUES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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 actual sources of funding for employer contributions (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:

   a. Decreases in state OPEB expenditures may begin in the 2022-23 or later to the extent that excluded retirees in state agencies begin not being otherwise eligible for OPEB benefits.

   b. Decreases in local government OPEB expenditures may begin in the 2022-23 or later to the extent that excluded retirees in state agencies begin not being otherwise eligible for OPEB benefits.

3. Revenues:

   No measurable effects.

III. <u>FISCAL IMPACT ON LOCAL GOVERNMENT ENTITIES [Completed by LLA]</u>

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

<u>Estimated Fiscal Impact - Local Government Entities (other than the impact included in Tables A and B)</u>
(Prepared by Bradley Cryer, Director of Local Government Services)

1. Narrative

   From time to time, legislation is proposed that has an indirect effect on expenditures and revenues associated with local government entities (other than the impact included in Tables A and B). Table C shows the estimated fiscal 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	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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 local government entities during the five year measurement period.

2. Expenditures:

The indirect impact of this proposed legislation cannot be reasonably determined.

3. Revenues:

The indirect impact of this proposed legislation cannot be reasonably determined.

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

This section of the actuarial note pertains to annual fiscal costs, cost savings, 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 John Carpenter, Legislative Fiscal Officer)

1. Narrative

Legislation may be proposed that has an indirect effect on expenditures and revenues associated with state government entities (other than the impact included in Tables A and B). Table D shows the estimated fiscal 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	2020-21	2021-22	2022-23	2023-24	2024-25	5 Year Total
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
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	2020-21	2021-22	2022-23	2023-24	2024-25	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:

   In addition to the impact on employer retirement contributions and post-employment benefits which are already reflected in Tables A and B above, state agencies that employ elected officials may have decreased expenditures related to insurance premiums as a result of this measure.

   This bill provides that public funds cannot be used to pay health or life insurance premiums for public officials elected on or after 1/1/21. The LFO cannot predict how many officials elected on or after this date would opt to enroll in a state insurance plan. However, for informational purposes, the Office of Group Benefits (OGB) was able to identify 253 elected officials currently enrolled in one of its health insurance plans and 143 elected officials currently enrolled in one of its life insurance plans. The total cost of the insurance premiums is shared by the elected officials and the state agencies that employ these officials. The estimated annual cost for state agencies to provide insurance benefits for these elected officials is $2,434,364 ($2,360,941 for health insurance and $73,423 for life insurance.)

   Note: This estimate does not include all elected officials that are currently enrolled in a state group benefit insurance plan. Elected officials that publicly use nicknames, middle names, maiden or hyphenated last names that are different than the name used on their group benefit coverage form are not included in this estimate. This estimate also does not include elected officials that are covered through LSU First and elected officials that are covered as a dependent on their spouse's OGB coverage.

   Note: This measure may cause a decrease in state expenditures across multiple means of finance (reflected as SGF in the expenditure box for simplicity.)

3. Revenues:

   There is no anticipated direct material effect on governmental revenues as a result of this measure.

Credentials of the Signatory Staff:

Lowell P. Good is the Actuary for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

James J. Rizzo is a Senior Consultant and Actuary with Gabriel, Roeder, Smith & Company, which currently serves as staff for the Actuarial Services Department of the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, an Associate 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.

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.

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

☐ HB 20 contains a retirement system benefit provision having an actuarial cost.

No member of any Louisiana public retirement system would receive a larger benefit with the enactment of HB 20 than what he would have received without HB 20.

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 2020 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 or fee change ≥ \$500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

☐ 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

☐ 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