2013 REGULAR SESSION
ACTUARIAL NOTE HB 20

House Bill 20 HLS 13RS-267
Original

Author: Representative Jack Montoucet
Date: March 27. 2013

LLA Note HB 20.01

Organizations Affected:
Firefighters' Retirement System

OR INCREASE APV

This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 20 provides compliance with the requirements of R.S. 24:52.

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Bill Header: RETIREMENT/FIREFIGHTERS: Provides for a five-year Deferred Retirement Option Plan for certain members of the Firefighters' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislative 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	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

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 to:	**Change in the Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	Decrease
Total	Increase

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	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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	Increase	Increase	Increase	Increase	Increase
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	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Under current law, members of the Firefighters' Retirement System (FRS) may remain in DROP for a period of three years.

Proposed Law

Under HB 20, a member of DROP who has 27 years of service before entering DROP may elect to remain in DROP for two additional years for a total of 5 years.

Implications of the Proposed Changes

HB 20 lengthens the period of time a member of FRS with 27 or more years of service will be able to remain in DROP, continue to work, and continue to have pension deposits made into his DROP account.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 20 produces offsetting increases and decreases in actuarial costs.

Actuarial costs are expected to increase relative to members of FRS who have 27 or more years of service. These costs are discussed below. Consider the following situations:

A member with 27 years of service is now 55 years old. He is earning $60,000 a year and has been earning that amount for the past 6 years. He has been in DROP for 3 years. His annual pension benefit calculated before entering DROP is $54,000.

Situation A

Let's first suppose that the member intends to continue to work two more years regardless of whether or not HB 20 is enacted. HB 20 will then have the following effects on the member, FRS, and the employer.

The following analysis shows the member gains $68,000 from HB 20, FRS loses $96,800, and the employer gains $28,800.

Effect On:		**HB 20 Is Not Enacted**	**HB 20 Is Enacted**
The Member:			
	Deposits into DROP Account	$ 0	$54,000 x 2 = $ 108,000
	Member Contributions to FRS	$(60,000) x 2 x 10% = $ (12,000)	$ 0
	Value of Additional Benefit Accruals	2 x 3 1/3% x $60,000 x 13 = $52,000	$ 0
	Increase/(Decrease) in Wealth	$ 40,000	$ 108,000
FRS:			
	Payments to member or his DROP account.	$0	2 x $(54,000) = $(108,000)
	Contributions received from the member	$60,000 x 2 x 10% = $ 12,000	$ 0
	Contributions received from the employer	$60,000 x 2 x 24% = $ 28,800	$ 0
	Value of additional benefits earned	2 x 3 1/3% x $(60,000) x 13 = $ (52,000)	$ 0
	Increase/(Decrease) in Assets	$ (11,200)	$ (108,000)
The Employer:			
	Contributions paid by the employer to FRS	$ (28,800)	$ 0
Total Effect on all Stakeholders		$ 0	$ 0

Situation B

On the other hand, let's suppose that the member will quit immediately if HB 20 is not enacted, but will continue to work if it is enacted. HB 20 will then have the following effects on the member, FRS, and the employer.

The following analysis shows the member is unaffected by HB 20; FRS losses $17,400, and the employer loses $45,600.

Effect On:		**HB 20 Is Not Enacted**	**HB 20 Is Enacted**
The Member:			
	Deposits into DROP Account or pension payments	$ 108,000	$ 108,000
	Member Contributions to FRS	$ 0	$ 0
	Value of Additional Benefit Accruals	$ 0	$ 0
	Increase/(Decrease) in Wealth	$ 108,000	$ 108,000
FRS:			
	Payments to member or his DROP account.	$(108,000)	$(108,000)
	Contributions received from the member or his replacement assuming replacement earns $30,000 a year	$30,000 x 2 x 10% = $ 6,000	$ 0
	Contributions received from the employer on member's salary or on his replacement 's salary	$30,000 x 2 x 24% = $ 14,400	$ 0
	Value of additional benefits earned	2 x 3 1/3% x $(30,000) x 1.5 = $ (3,000)	$ 0
	Increase/(Decrease) in Assets	$ (90,600)	$ (108,000)
The Employer:			
	Salary paid to the member and/or his replacement	2 x $(30,000) = $(60,000)	2 x $(60,000) = $(120,000)
	Contributions paid by the employer to FRS	$ (14,400)	$ 0
	Increase/(Decrease in Assets)	$ (74,400)	(120,000)
Total Effect on all Stakeholders		$ (57,000)	$ (120,000)

Therefore, in both situations, FRS incurs an actuarial cost as a result of HB 20. Employer contribution requirements will have to be increased in the future in order to accommodate greater expenditures from the retirement system. The precise amount cannot be determined. About 125 members of FRS are currently in DROP with 27 or more years of service. It is likely that many of these members are in Situation A; they will work two more years regardless of HB 20. Enactment will provide them with a windfall and FRS will pay out significantly more money. Other members are in situation B. They will not receive a windfall, but FRS still incurs a net loss.

Some actuarial savings may arise relative to members of FRS who upon attaining 25 years of service elect to continue regular employment and defer entry into DROP for two years to obtain the benefit of the extended DROP period. HB 20 may induce members with less than 27 years of service to remain employed in order to reap the benefit of a longer DROP period. If such inducement occurs some savings will be realized to offset the additional benefits that will be provided to such members. There is insufficient evidence to conclude that such savings will be large enough to offset the additional costs associated with Situation A and Situation B. As a result, HB 20 has an actuarial cost.

The effects of HB 20 on various components of actuarial cost are summarized below:

1. The actuarial present value of future benefits will increase.
2. The unfunded accrued liability of the plan will increase.
3. Normal costs will increase.

Other Post Retirement Benefits

Actuarial costs for post-retirement benefits other than pensions will decrease as a result of HB 20 to the extent that employers provide such benefits. Some members will be induced to work a couple more years in order to receive the benefits offered by HB 20. As a result, premiums associated with post-employment benefits will not be paid and actuarial costs will decrease.

Analysis of Fiscal Costs

HB 20 will have the following effect on fiscal costs.

Expenditures:

1. Expenditures from FRS (Agy Self-Generated) will increase regardless of whether or not HB 20 induces firefighters with 27 or more years of service to work longer. In either event, benefit payouts to members in DROP affected by HB 20 will increase.

2. Expenditures from FRS (Agy Self-Generated) will decrease to the extent that the provisions of HB 20 will encourage firefighters with less than 27 years of service to work longer before entering DROP.

3. Net expenditures from FRS (Agy Self-Generated) will increase.

4. Expenditures from Local Funds will increase to the extent that employer contribution requirements increase to accommodate larger benefit payments.

Revenues:

- FRS revenues (Agy Self-Generated) will increase to the extent that employer contribution requirements increase.

The net increase in expenditures from FRS over first three years of the fiscal measurement period is expected to exceed $500,000.

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	House
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[ ] 6.8(F) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change