


**2014 REGULAR SESSION  
ACTUARIAL NOTE HB 22**

<p>House Bill 22 HLS 14RS-320 Enrolled</p> <p><b>Author: Representative J. Kevin Pearson</b> <b>Date: May 23, 2014</b></p> <p>LLA Note HB 22.03</p> <p><b>Organizations Affected:</b> <b>Harbor Police Retirement System</b></p> <p>EN DECREASE APV</p>	<p>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 22 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">   <b>Paul T. Richmond, ASA, MAAA, EA</b>  <b>Manager Actuarial Services</b> </div>
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**Bill Header:** RETIREMENT/LOCAL: Provides generally relative to the Harbor Police Retirement System in the city of New Orleans.

**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	Decrease
Revenues	\$0

**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.

<b><u>Actuarial Cost (Savings) to:</u></b>	<b><u>Increase (Decrease) in The Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	\$0
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.

<b>EXPENDITURES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
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	0	0	0	0	0	0
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

<b>REVENUES</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>5 Year Total</b>
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

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**Bill Information:**

**Current Law**

Current law provides for the Harbor Police Retirement System (HPRS).

**Proposed Law**

HB 22 makes the following changes to current law.

1. HB 22 changes the definition of “Accumulated Contribution.” Under current law, the definition includes interest on member contributions. Under HB 22, interest is not included for members hired on or after July 1, 2014.
2. HB 22 defines “Medical Board” as a group of licensed medical professionals. Current law defines “Medical Board” as a board of physicians.
3. HB 22 removes dependent parents from the list of potentially eligible recipients of survivor benefits for a deceased active member.
4. HB 22 adds handicapped disabled children regardless of age to the list of potential recipients of survivor benefits for a deceased active member.
5. HB 22 removes dependent parents from the list of potentially eligible recipients of survivor benefits for a member killed in the line of duty.
6. HB 22 makes technical changes to DROP and further provides that a member may participate in DROP only once.
7. HB 22 requires a member hired on or after July 1, 2014, to have 10 years of service to be eligible for disability retirement. Current law requires only 5 years of service. HB 22 makes other technical changes.
8. HB 22 changes the composition of the board of trustees as follows:
  - a. Current law provides that 2 members with 10 or more service are to be elected by members and such trustees will have a 5 year term of office. HB 22 provides that the term of office of the current trustees will be extended until June 30, 2018, and June 30, 2019, respectively.
  - b. Current law provides that 1 retiree is to be elected by retirees and such a trustee will have a 3 year term of office. HB 22 increases the term of office to 5 years and extends the term of office of the current trustee to June 30, 2016.
  - c. Current law provides that 2 members of the executive staff of the board of commissioners of the Port of New Orleans will be appointed by the board of commissioners for terms of 3 years. HB 22 provides that the terms of office will be extended to 5 years and the term of the current trustee whose term was to expire in June 2015 will be extended to June 30, 2017.
  - d. Current law provides that the superintendent of the Harbor Police and the secretary of the retirement board shall be ex-officio members. HB 22 removes the secretary of the retirement board as a member of the board of trustees.
  - e. HB 22 provides that the 6 trustees identified above will elect a 7<sup>th</sup> trustee who is not a member of the retirement system. This member shall serve a 3 year term, taking office on August 1, 2014.
  - f. Current law provides that the 7 trustees identified above will elect an 8<sup>th</sup> trustee who may not be an employee or a member of the dock board but who must be experienced in investing money. Such trustee shall serve a 2 year term. Under HB 22, this member shall serve a term of 3 years.
9. HB 22 required the board of trustees to adopt interest and mortality rates for calculating actuarial equivalence.
10. HB 22 repeals provisions of HPRS law pertaining to person who enrolled in DROP prior to July 1, 1995.
11. HB 22 repeals provisions of HPRS law that allows a non-standard optional form of retirement benefit.

This Act shall become effective on June 30, 2014, but only if HB 1278 of this 2014 Regular Session of the Legislature does not become effective.

**Implications of the Proposed Changes**

Changes made by HB 22 to the Harbor Police Retirement System are for the most part technical in nature.

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### **Cost Analysis:**

#### **Analysis of Actuarial Costs**

##### **Retirement Systems**

HB 22 contains a benefit provision having an actuarial cost. HB 22 adds survivor benefits for adult handicapped children of a deceased member of HPRS. The actuarial present value of future benefit payments will increase because of this provision.

The following changes made by HB 22 will result in a decrease in actuarial costs to the retirement system:

1. The change in the definition of "Accumulated Contribution."
2. The removal of dependent parents from the list of eligible recipients of survivor benefits.
3. The increase in the number of years of service needed to be eligibility for disability benefits.

HB 22 requires the board of trustees to select assumptions for the calculation of actuarially equivalent benefits, transfers and service purchases. This could result in savings or increased costs depending upon the assumption so approved.

The net effect of all the changes will be a decrease in the actuarial present value of future benefit payments, accrued liabilities and employer contribution requirements calculated without regard to the 20% limitation on such contributions.

##### **Other Post-Employment Benefits**

There are no actuarial costs associated with HB 22 for post-employment benefits other than pensions.

#### **Analysis of Fiscal Costs**

HPRS is not an actuarially funded retirement system. It is financed by the following amounts:

1. Employee contributions that are equal to 9% of pay.
2. All fines collected from violations of ordinances of the City of New Orleans applicable to the wharves, landings, and river front.
3. Actuarially calculated employer contributions not to exceed 20% of pay.

These amounts are not sufficient to maintain the retirement system on an actuarially sound basis.

HB 22 will have the following effect on fiscal costs.

##### **Expenditures:**

1. Expenditures from HPRS (Agy Self-Generated) will decrease to the extent that benefits payable in the event of disablement or termination of employment decrease.
2. Expenditures from HPRS (Agy Self-Generated) for dependent parents of deceased active members will decrease. However, this decrease will be offset by increases due to payments that now will be made to adult handicapped children of deceased active members.
3. Expenditures from Local Funds will not change during the measurement period because actuarially calculated employer contributions are expected to exceed 20% of pay regardless of the provisions of HB 22. Therefore the employer contribution rate will remain at 20%.

##### **Revenues:**

1. Revenues to HPRS (Agy Self-Generated) will not change during the measurement period because actuarially calculated employer contributions are expected to exceed 20% of pay regardless of the provisions of HB 22.
2. Revenues to HPRS will increase or decrease to the extent that amounts collected by HPRS for transfers and service purchases increase or decrease.
3. The net effect on HPRS revenues is negligible.

### **Actuarial Data, Methods and Assumptions**

This actuarial note has been prepared based on the June 30, 2013 actuarial valuation report prepared by Conefry & Company, LLC. We are relying on the professional certification of the actuary signing this report.

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**Actuarial Caveat**

There is nothing in HB 22 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

**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: Annual Fiscal Cost  $\geq$  \$100,000
- 13.5.2: Annual Tax or Fee Change  $\geq$  \$500,000

**House**

- 6.8(F)(1): Annual State Fiscal Cost  $\geq$  \$100,000
- 6.8(F)(2): Annual State Revenue Reduction  $\geq$  500,000
- 6.8(G): Annual Tax or Fee Change  $\geq$  \$500,000