2014 REGULAR SESSION
ACTUARIAL NOTE HB 24

House Bill 24 HLS 14RS-388 **Engrossed with Senate Floor Legislative Bureau Amendment #4029** **Author: Representative J. Kevin Pearson** **Date: May 15, 2014** **LLA Note HB 24.03** **Organizations Affected:** **Municipal Police Employees' Retirement System** **EGF +$2,920,733 FC LF EX**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of the Note to HB 24 provides compliance with the requirements of R.S. 24:521.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/MUNICIPAL POL: Provides relative to amortization schedules for credits and liabilities of the Municipal Police Employees' Retirement System

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	$0
Total Five Year Fiscal Cost	
Expenditures	$ (3,938,455)
Revenues	$ (3,938,455)

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 (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	$0
Other Post Retirement Benefits	$0
Total	$0

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	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**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	(6,077,763)	(6,580,735)	2,920,733	2,911,487	2,887,823	(3,938,455)
Annual Total	$ (6,077,763)	$ (6,580,735)	$ 2,920,733	$ 2,911,487	$ 2,887,823	$ (3,938,455)

REVENUES	**2014-15**	**2015-16**	**2016-17**	**2017-2018**	**2018-2019**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	(6,077,763)	(6,580,735)	2,920,733	2,911,487	2,887,823	(3,938,455)
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	$ (6,077,763)	$ (6,580,735)	$ 2,920,733	$ 2,911,487	$ 2,887,823	$ (3,938,455)

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Bill Information:

Current Law

Under current law for MPERS, any change in the system's unfunded accrued liability must be amortized with level payments over a 30 year period.

Proposed Law

HB 24 makes the following change relative to amortization periods for MPERS.

1. All outstanding bases as of June 30, 2014 will be consolidated and then amortized with level payments over 20 years.

2. All future changes in accrued liability will be amortized with level payments over a 15 year period.

Implications of the Proposed Changes

The current UAL is scheduled to be fully amortized by FYE 2041. The current UAL for MPERS under the revised amortization schedule will be paid off by 2035, six years earlier.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

HB 24 contain no benefit provisions having an actuarial cost.

HB 24 will change the pattern of paying off the Unfunded Actuarial Liability. The unfunded actuarial liability will be paid off earlier under proposed law than under current law. Under HB 24, contributions received from participating employers to amortize the unfunded liability will be lower for the first five years, and interest paid over the entire amortization period will be lower than the interest paid under current law. The table below summarizes the 5-year period and long term effect of HB 24.

Amortization of the Outstanding Bases as of June 30, 2014

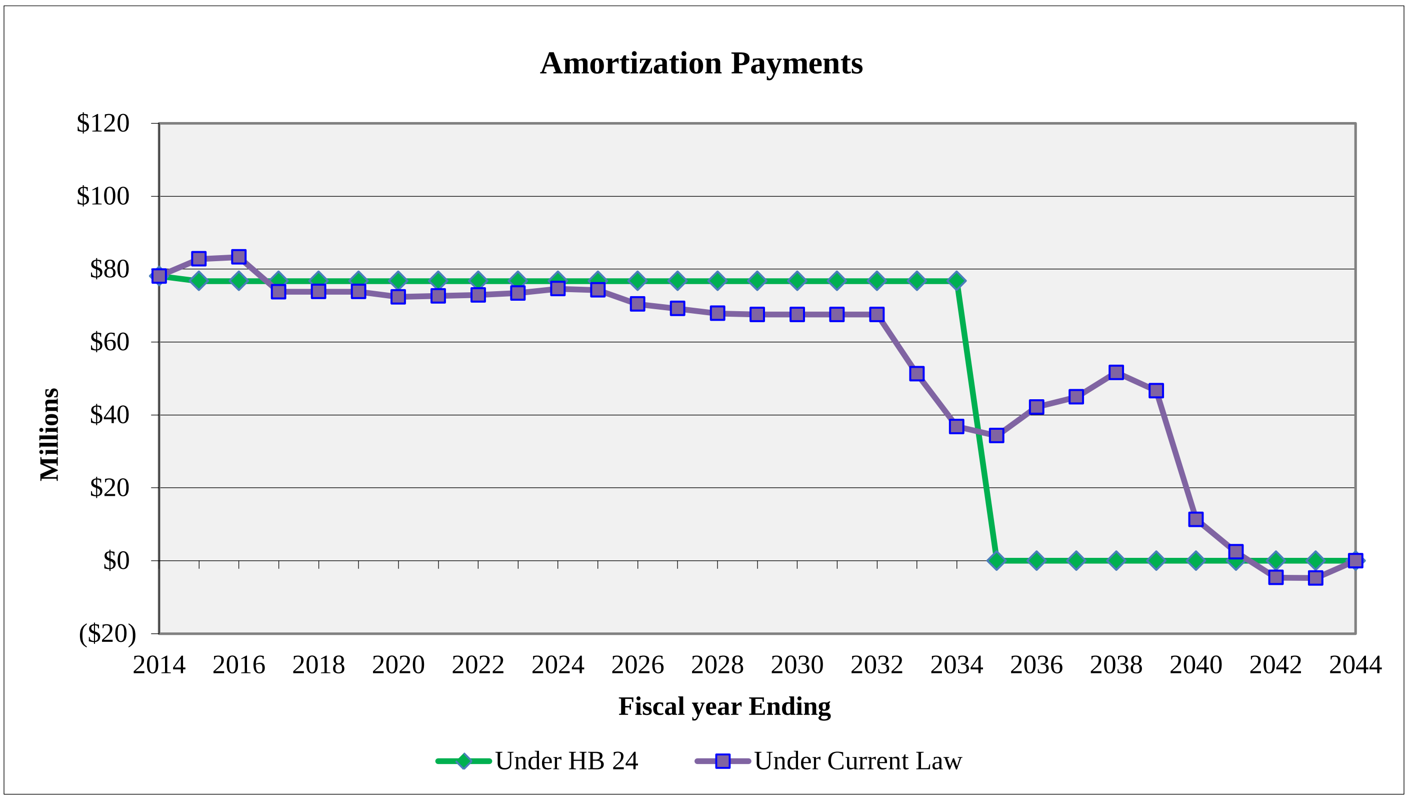
	Under Current Law	Under HB 24	Increase/Decrease
Outstanding Charge and Credit Bases	$ 840,735,470	$ 840,735,470	$ 0
Interest on Outstanding Bases	776,764,655	693,582,391	(83,182,263)
Total Payments	1,617,500,125	1,534,317,861	(83,182,263)

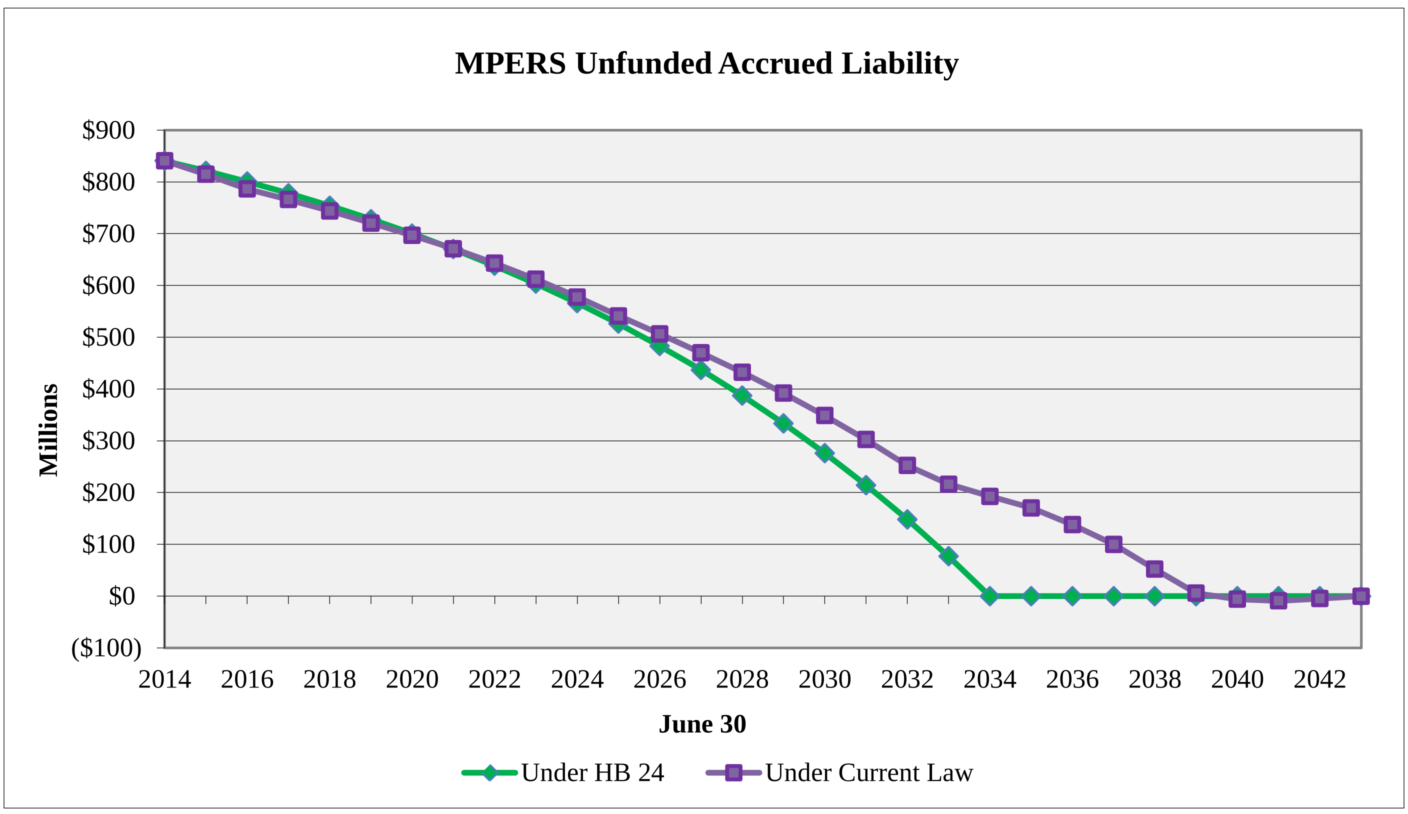
Changes in employer contribution requirements over the five year period following the 2014 legislative session are shown below:

Increase in Amortization Payments over the 5-Year Measurement Period

FYE	Current Law	HB 24	Increase/Decrease
2015	$ 82,793,656	$ 76,715,893	$ (6,077,763)
2016	83,296,628	76,715,893	(6,580,735)
2017	73,795,160	76,715,893	2,920,733
2018	73,804,406	76,715,893	2,911,487
2019	73,828,070	76,715,893	2,887,823
Total	**$ 387,517,919**	**$ 383,579,464**	**$ (3,938,455)**

Amortization costs and the unfunded accrued liability over the entire amortization period will change as shown in the following graphs.





Other Post-Employment Benefits

There are no actuarial costs or savings associated with HB 24 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 24 will have the following effect on fiscal costs during the five year measurement period:

Expenditures:

- Local Fund expenditures will decrease for FYE 2015 and 2016. Thereafter, local fund expenditures will be larger under HB 24 than under current law. The cumulative total for the five year measurement period is a decrease in expenditures.

Revenues:

- MPERS revenues (Agy Self-Generated) will decrease for FYE 2015 and 2016. Thereafter, MPERS revenues will increase under HB 24. The cumulative total for the five year measurement period is a decrease in revenues.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This 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.

Actuarial Caveat

There is nothing in HB 24 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

[x] 13.5.1: Annual Fiscal Cost ≥ $100,000

[ ] 13.5.2: Annual Tax or Fee Change ≥ $500,000

House

[ ] 6.8(F)(1): Annual State Fiscal Cost ≥ $100,000

[ ] 6.8(F)(2): Annual State Revenue Reduction ≥ $500,000

[ ] 6.8(G): Annual Tax or Fee Change ≥ $500,000