


**2013 REGULAR SESSION
ACTUARIAL NOTE HB 41**

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| <p>House Bill 41 HLS 13RS-276 Original</p> <p>Author: Representative Jeffery “Jeff” J. Arnold</p> <p>Date: April 25, 2013</p> <p>LLA Note HB 41.01</p> <p>Organizations Affected: Firefighters’ Pension and Relief Fund of New Orleans</p> <p>OR DECREASE APV</p> | <p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to HB 41 provides compliance with the requirements of R.S. 24:521.</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div> |
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Bill Header: RETIREMENT/LOCAL: Provides relative to the board of trustees of the Firefighters’ Pension and Relief Fund 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.

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|--|----------|
| 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.

| <u>Actuarial Cost/(Savings) to:</u> | <u>Change in the Actuarial Present Value</u> |
|--|---|
| 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.

| 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 | 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 |

| 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 | 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 |

2013 REGULAR SESSION ACTUARIAL NOTE HB 41

Bill Information:

Current Law

Current law states that the board of trustees for the Firefighters' Pension and Relief Fund of New Orleans (NOFF) consists of ten members determined in the following manner.

1. The superintendent of the fire department.
2. The director of finance of the city of New Orleans.
3. Five members elected from the active ranks of the department.
4. Three members elected from the ranks of retired members of the department.

The term period for each of the members of the board of trustees is two years.

Current law authorizes the board of trustees to provide an annual cost-of-living increase in benefits for retired members and widows of retired members. The cost-of-living increase shall not exceed 3% of the original benefit or 2% of the original benefit for retired members and widows who are age 65 or older. Such benefit increases shall only be paid from excess earnings on investments of the system, from funds appropriated for this purpose by the city of New Orleans, or from other sources designated for this purpose.

Article X, Section 29(F) of the Louisiana Constitution provides that benefit provisions for members of any public retirement system, plan, or fund that is subject to legislative authority shall be altered only by legislative enactment and if such benefit provision has an actuarial cost, a two-thirds vote of each house of the legislature is necessary for the benefit change to be approved.

Proposed Law

Under HB 41, the term period for the current members of the NOFF board of trustees will be four years.

Also, three new members will be added to the NOFF board of trustees and will serve terms concurrent with the appointing authority. These members will be determined as follows.

1. One member, who is a resident of New Orleans, shall be appointed by the mayor of New Orleans with the approval of the city council.
2. One member, who is a resident of New Orleans, shall be appointed by the members of the Louisiana House of Representatives who represent the area comprising the city of New Orleans acting jointly.
3. One member, who is a resident of New Orleans, shall be appointed by the members of the Louisiana Senate who represent the area comprised of the city of New Orleans acting jointly.

HB 41 requires an annual cost-of-living increase to be approved by two-thirds of the members of the board who are present and voting when a quorum is present. Such cost of living increase must be ratified by a two-thirds vote of each house of the legislature.

Implications of the Proposed Changes

If HB 41 is enacted, the number of members serving on the NOFF board of trustees will increase from ten to thirteen. The three additional members will serve terms concurrent with the appointing authority, while the other ten members' terms will increase from two years to four years. HB 41 further provides that a two-thirds approval by the board of trustees will be required for a cost-of-living increase in benefits to be provided for retirees and widows of retired members.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Under HB 41, the two-thirds approval requirement by the board of trustees may result in cost-of-living increases being granted less frequently in the future than under current law. If the board approves cost-of-living adjustments less frequently in the future, the actuarial present value of future benefit payments will decrease. However, the extent to which the proposed board voting requirements will have on the frequency of cost-of-living adjustments cannot be determined.

Other Post Retirement Benefits

There are no actuarial costs associated with HB 41 for the post-employment benefits other than pensions.

Analysis of Fiscal Costs

HB 41 will have the following effects on fiscal costs during the five year measurement period.

**2013 REGULAR SESSION
ACTUARIAL NOTE HB 41**

Expenditures:

1. Expenditures from NOFF (Agy Self Generated) will increase because it is likely that the addition of citizen members to the board of trustees will result in an increase in administrative expenses.
2. Expenditures for NOFF (Agy Self-Generated) will decrease to the extent that it may be more difficult to obtain approvals for cost-of-living adjustments. This decrease in expenditures potentially will have a greater effect than the increase in expenditures associated with administrative costs.
3. Expenditures from Local Funds will not change. The retirement system is not actuarially funded; retirement system revenues are derived from employee contributions and various other revenue sources that do not depend on the actuarial solvency of the system.

Revenues:

- NOFF revenues (Agy Self Generated) will not change. Retirement system revenues are based on sources that are not related to the level of benefit payments and investment earnings.

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 \geq \$100,000 Annual Fiscal Cost

13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

6.8(F) \geq \$500,000 Annual Fiscal Cost

6.8(G) \geq \$500,000 Annual Tax or Fee Change