


**2015 REGULAR SESSION
ACTUARIAL NOTE HB 56**

<p>House Bill 56 HLS 15RS-425 Engrossed 1 with Senate Retirement Committee Amendment #1969</p> <p>Author: Representative Frank Hoffman Date: May 22, 2015</p> <p>LLA Note HB 56.03</p> <p>Organizations Affected: District Attorneys' Retirement System</p> <p>EG1 NO IMPACT 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 56 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/DISTRICT ATTY: Provides relative to modifications of employer contribution rates by the board of trustees of the District Attorneys' 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 to Retirement Systems	\$0
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:	<u>Change in the Actuarial Present Value</u>
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 the retirement systems and other government entities. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	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	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

There are no provisions under current law for the establishment of a Funding Deposit Account for the District Attorneys' retirement System.

Current law does not contain any provisions requiring the establishment of employer contribution rates for statewide be done by rule in accordance with the provisions of the Administrative Procedures Act.

Current law does not contain any provisions requiring the use of Funding Deposit Account assets be done by rule adopted in accordance with the provisions of the Administrative Procedures Act.

Proposed Law

HB 56 authorizes the District Attorneys' Retirement System (DARS) to:

1. Establish a Funding Deposit Account.
2. Establish an employer contribution rate that is higher than the actuarially calculated rate. DARS may set the rate as follows:
 - a. Set a rate that is at least equal to the actuarially calculated rate but less than or equal to the prior year's rate.
 - b. Set the rate 300 basis points higher than the actuarial calculated rate.
3. Fund the Funding Deposit Account with employer contributions that exceed employer contributions that would have been made according to the actuarially calculated rate.
4. Use the assets in the Funding deposit Account to:
 - a. Apply to the frozen unfunded accrued liability (UAL), if any, without re-amortization of such debt.
 - b. Reduce the outstanding amortization charge base, having the greatest number of outstanding payments, without re-amortization of such base.
 - c. Decrease the employer contribution rate.

HB 56 provides that the establishment of an employer contribution rate by DARS must be set by rule adopted in accordance with the provisions of the Administrative Procedures Act. The other systems with Funding Deposit Account do not have the Administrative Procedures Act requirement under current law or under HB 56.

HB 56 also provides that any use of funds in the Funding Deposit Accounts for DARS be done by rule adopted in accordance with the provisions of the Administrative Procedures Act.

Implications of the Proposed Changes

HB 56 establishes a Funding Deposit Account for DARS identifying its source of funding and the uses to which Fund assets may be applied.

HB 56 also provides that the establishment of employer contribution rates and the use of funds by DARS be done by rule in accordance with the provisions of the Administrative Procedures Act.

Cost Analysis:

Analysis of Actuarial Costs

HB 56 does not contain any benefit provision having an actuarial cost.

Retirement Systems

HB 56 is permissive. It does not require DARS to establish a Funding Deposit Account. However, it is likely that if HB 56 is enacted, DARS will establish one.

If HB 56 is enacted and a Funding Deposit Account is established by DARS, employer contributions to DARS will be larger than they would have been otherwise and the Account will be used to reduce contribution volatility in the future.

Other Post-Employment Benefits

There are no actuarial costs associated with HB 56 relative to post-retirement benefits other than pension.

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Analysis of Fiscal Costs

HB 56 will have the following effects on cash flows during the five year fiscal cost measurement period.

Expenditures:

- Expenditures from Local Funds will increase for fiscal years in which the board requires a higher employer contribution rate that is greater than the actuarially required rate.

Revenues:

- DARS revenues (Agy Self-Generated) will increase to the extent that the employer contribution rate is greater than the actuarially required rate.

We assume that assets in the Funding Deposit Account will not be used by DARS until a substantial pool of assets is accumulated. Therefore, we conclude that expenditures from the Funding Deposit Account will be \$0 during the five year fiscal measurement period.

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 adopted by PRSAC.

Actuarial Caveat

There is nothing in HB 56 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is actuary 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 Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000