


**2013 REGULAR SESSION  
ACTUARIAL NOTE HB 67**

<p>House Bill 67 HLS 13RS-463 Original</p> <p>Author: Representative Jeffery “Jeff” J. Arnold Date: April 22, 2013</p> <p>LLA Note HB 67.01</p> <p>Organizations Affected: Harbor Police Retirement System</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 67 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: Establishes a second tier of membership, applicable to new employees, in 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	\$0
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>Change in the Actuarial Present Value</u></b>
All Louisiana Public Retirement Systems	Decrease
Other Post Retirement Benefits	Decrease
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	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

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

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**Bill Information:**

**Current Law**

Current law establishes the Harbor Police Retirement System (HPRS).

*Final Compensation*

The average earned compensation during 36 successive months of service during which such compensation was the highest.

*Regular Retirement*

Under current law, a member must attain the age and service amounts below in order to retire.

1. A member may retire at age 60 if he has 10 or more years of service.
2. A member may retire at age 55 if he has 12 or more years of service.
3. A member may retire at age 45 if he has 20 or more years of service.
4. A member may retire at any age if he has 25 or more years of service.

A member will receive a monthly retirement benefit equal to  $3 \frac{1}{3}\%$  x Final Compensation x Years of Service.

*Disability Retirement*

Under current law, a member must have 5 or more years of service to be eligible for disability retirement. A member who retires upon disability will receive his regular retirement benefit once he has attained age 55. Otherwise, he will receive a disability benefit equal to 60% x Final Compensation.

*Survivor Benefits for Active Members*

1. For Death in the Line of Duty:
  - A member's survivors qualify for line of duty survivor benefits regardless of the number of years of service as long as the death occurs as a direct result of injuries sustained while in the line of duty.
2. For Death Not in the Line of Duty
  - A member who dies not in the line of duty prior to retirement must have 5 or more years of service for his survivors to qualify for a benefit.

*Deferred Retirement Option Program (DROP)*

- DROP Period and Duration:
  - a. DROP Period.
    - A period of time specified by the member not to exceed 5 years.
  - b. End of Period.
    - A date specified by the member occurring on or before the fifth anniversary of the beginning of the DROP period.

**Proposed Law**

HB 67 creates a second tier of benefits in HPRS for members who are first employed on or after January 1, 2014. The Tier 2 benefit provisions parallel benefit provisions associated with the Hazardous Duty Plan of LASERS.

*Final Compensation*

The average earned compensation during 60 successive months of service during which such compensation was the highest.

Compensation in one twelve month period of an FAC period may not exceed 115% of the compensation in the prior twelve month period. (Note: Compensation in the first year in the FAC period may exceed compensation in the last year prior to the FAC period by more than 115%).

*Regular Retirement*

A member must attain the age and service amounts below in order to retire.

1. A member may retire at age 55 if he has 12 or more years of service.
2. A member may retire at any age if he has 25 or more years of service.
3. A member may retire if he has 20 or more years of service with an actuarial reduction.

A member will receive a monthly retirement benefit equal to  $3 \frac{1}{3}\%$  x Final Compensation x Years of Service.

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*Disability Retirement*

1. Disablement in the Line of Duty

- A member is eligible for line of duty disability retirement at any age with any amount of service as long as the disablement occurred in the performance of regular duties. The disability benefit is equal to 75% x Final Compensation.

2. Disablement Not in the Line of Duty

- A member who is disabled due to an injury sustained not in the line of duty and has 10 or more years of service will receive a disability benefit equal to his regular retirement benefit he would have received with his years of service, accrual rate, and final average compensation under normal retirement.

*Survivor Benefits for Active Members*

1. For Death in the Line of Duty

A member's surviving spouse and unmarried minor children or adult handicapped children qualify for line of duty survivor benefits regardless of the number of years of service as long as the death occurs as a direct result of injuries sustained while in the line of duty. The line of duty survivor benefit is equal to 80% x Member's Final Compensation and is divided equally among the qualified survivors.

2. For Death Not in the Line of Duty

A member who dies not in the line of duty prior to retirement must have 5 or more years of service for his survivors to qualify for a benefit.

*Survivor Benefits for Non Active Members*

1. If the member had at least 12 years of service but terminated employment prior to attaining retirement eligibility, the surviving spouse will receive a survivor benefit equal to 50% x Member's Benefit.
2. If the member had retired from HPRS and was receiving a retirement benefit, the surviving spouse will receive a survivor benefit equal to 75% x Member's Retirement Benefit.
3. If there is no surviving spouse eligible to receive benefits, the children of the member shall be entitled to benefits until they reach 18, or 23 if a student.

*Initial Benefit Option*

1. Available to a member only if he has not participated in DROP and did not retire under disability retirement.
2. If option is selected, member may not participate in DROP.
3. An initial lump sum benefit plus a reduced monthly retirement benefit which together are actuarially equivalent to the member's maximum retirement benefit.
4. Initial benefit shall be a lump sum and shall not exceed 36 months of member's maximum retirement benefit.

*Cost-of-living Adjustment Option*

A member makes an irrevocable election to receive a reduced benefit that will increase annually at the rate of 2.5% per year.

*Deferred Retirement Option Program (DROP)*

- DROP Period and Duration
  - a. DROP Period.
    - A period of time specified by the member not to exceed 3 years.
  - b. End of Period.
    - A date specified by the member occurring on or before the third anniversary of the beginning of the DROP period.

**Implications of the Proposed Changes**

HB 67 creates a second tier of benefits in HPRS for members who are first employed on or after January 1, 2014. The proposed law establishes new final average compensation period, retirement eligibility, disability retirement benefits, survivor benefits, benefit options, and deferred retirement option program period.

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**Cost Analysis:**

**Analysis of Actuarial Costs**

**Retirement Systems**

The actuarial present value of future benefit payments for future members of HPRS will decrease as a result of HB 67. HB 67 will have no effect on the actuarial present value of future benefit payments for current members.

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

1. Employee contributions 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.

Because employer contribution requirements are limited to 20% of pay and the actuarially required employer contribution rate exceeds this by a significant amount, the changes in law proposed under HB 67 are not significant enough to change the amount employers will contribute. Employer will contribute 20% of pay before and after enactment of HB 67.

The provisions of HB 67 will eventually lead to a decrease in actuarially calculated employer contribution requirements. However, the impact of HB 67 on such calculations will not be felt until existing active members of HPRS terminate, retire or otherwise leave employment and are replaced by new members.

It is likely that some existing members will leave employment and that some new employees will be hired and become members of the system during the five year fiscal measurement period. If that occurs, the actuarially calculated employer contribution rate should be less at the end of the measurement period than it is now. However, it is very unlikely that the actuarially calculated rate will become less than 20% of pay. Therefore, employer contribution requirements to HPRS will not change.

**Other Post Retirement Benefits**

HB 67 should reduce actuarial costs associated with post-retirement benefits other than pensions. Members will retire later than they would have otherwise and, as a result, the liability associated with these benefits will decrease.

**Analysis of Fiscal Costs**

HB 67 will have the following effect on fiscal costs.

Expenditures:

- Expenditures from HPRS (Agy Self-Generated) are not likely to change. It is unlikely that a new member will be entitled to a benefit during the fiscal measurement period.
- Expenditures from Local Funds will not change because employer contribution requirements will remain at 20% of pay.

Revenues:

- Revenues for HPRS (Agy Self-Generated) will not change because employer contributions will not change.

**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