2017 REGULAR SESSION
ACTUARIAL NOTE SB 8

Senate Bill 8 SLS 17RS-37 **Original** **Author: Senator Peacock** **Date: April 5, 2017** **LLA Note SB 8.01** **Organizations Affected:** **All State and Statewide Retirement Systems** **OR NO IMPACT APV**	**This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as modified by Act 353 of the 2016 Regular Session.** Paul T. Richmond **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT SYSTEMS. Provides for correction of membership and enrollment errors in the state and statewide retirement systems. (6/30/17)

<u>Cost Summary:</u>

The estimated actuarial and fiscal impact of SB 8 on the retirement systems and their plan sponsors is summarized below. Actuarial costs or savings pertain to estimated changes in the ***actuarial present value of future benefit payments***. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

<u>Estimated Actuarial Impact:</u>

The top part of the following chart shows the estimated change in the ***actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:		**<u>Actuarial Cost</u>**
The Retirement Systems		$0
Other Post-Employment Benefits (OPEB		0
Other Government Entities		<u>0</u>
Total		$0
	<u>Fiscal Costs</u>	
Five Year Fiscal Cost Pertaining to:	**<u>Expenses</u>**	**<u>Revenues</u>**
The Retirement Systems	See Below	$0
Other Post-Employment Benefits	0	0
Other Government Entities	<u>0</u>	<u>0</u>
Total	See Below	$0

This bill complies with the Louisiana Constitution which requires unfunded liabilities created by an improvement in retirement benefits to be amortized over a period not to exceed ten years.

<u>Bill Information</u>

Current Law

Except for the following circumstances, statutes governing the Louisiana retirement systems do not include any formal and/or detailed provisions to follow when a person is incorrectly enrolled in the wrong system. The exceptions are:

1. Detailed instructions are provided by statute for correcting the membership of a person who should have been enrolled in TRSL was incorrectly enrolled in another Louisiana public retirement system.

2. Detailed instructions are provided by statute for correcting the membership of a person who should have been enrolled in LSERS was incorrectly enrolled in another Louisiana public retirement system.

A person who is enrolled in the wrong system may be accruing benefits which are more or less than he should be accruing if he were in the correct system, and both the member and his employer may be contributing more or less than they would to the correct system.

Proposed Law

The proposed law will create several provisions to correct enrollment errors in the state and statewide retirement systems. The new provisions associated with SB 8 are summarized below.

1. Any employee enrolled in the wrong system shall be transferred to the correct system.

2. Within 30 days, the incorrect system shall notify the employee and initiate a transfer to the correct system.

3. If the employee has previously received a refund, he will have the opportunity to repay the refund and have his service credit restored and transferred to the correct system.

4. If the transfer is made within three years of the enrollment error, the amounts transferred from the incorrect system to the correct system will be the employer and employee contributions which should have been made to the correct system, plus interest.

5. If the transfer is made more than three years after the enrollment error, the amounts transferred from the incorrect system to the correct system will be the greater of (i) the employer and employee contributions that should have been made plus interest, and (ii) the actuarial cost for the service credit transferred.

6. Any overpayments of employee contributions will be refunded by the incorrect system to the employee, and any overpayments of employer contributions will be refunded by the incorrect system to the employer.

7. Any underpayments of employer and employer contributions will be paid for by the employer.

Implications of the Proposed Changes

SB 8 provides a clear procedure for correcting enrollment errors relating to the state and statewide retirement systems. The employees will be made whole based on the provisions of the system in which they should have been enrolled.

The procedure is designed to encourage prompt discovery and correction of errors by employers, and to minimize the chances that the systems which are involved in the transfers will be affected financially. The financial impact of delayed corrections will be covered by employers of the person for whom membership errors were made.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by the LLA)

This section of the actuarial note pertains to the actuarial present value cost or savings associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

The actuarial present value cost of SB 8 associated with the retirement systems is estimated to be $0. Our analysis is summarized below.

> SB 8 will add costs for some employers and members, and will provide refunds to other employers and members, depending on the relative costs of the two systems which are involved. For any given year, there could be a cost or a savings depending on the retirement systems involved. However, over a long period of time, there should be no net costs or savings for SB 8.

2. Other Post-Employment Benefits (OPEB)

The actuarial cost of SB 8 associated with OPEB, including retiree health insurance premiums, is estimated to be $0. Our analysis is summarized below.

> The liability for post-retirement medical insurance protection provided to retirees by the Office of Group Benefits or other insurers is not affected by the provisions of an enrollment correction.

3. Other Government Entities

The actuarial cost of SB 8 associated with government entities other than those identified in SB 8, is estimated to be $0. Our analysis is summarized in Section II; Subsection C.

B. Actuarial Data, Methods and Assumptions
(Prepared by the LLA)

Unless indicated otherwise, the actuarial note for SB 8 was prepared using actuarial data, methods and assumptions as disclosed in the most recent actuarial valuation reports adopted by PRSAC. The 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.

C. Actuarial Caveat
(Prepared by the LLA)

There is nothing in SB 8 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Tables C and C2). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of SB 8 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by the LLA)

1. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

SB 8 will affect retirement related fiscal costs either positively or negatively in any given fiscal year during the five year measurement period. However, the cost or savings associated with a correction of incidental membership errors will offset one another. The net effect on fiscal costs and revenues will be $0.

Fiscal Costs for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

B. Estimated Fiscal Impact – OPEB
(Prepared by the LLA)

1. Narrative

Table B shows the estimated fiscal impact of SB 8 on costs associated with OPEB and the government entities that sponsor these benefits. Fiscal costs in Table B include administrative costs associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

SB 8 will not have any effect on fiscal costs associated with OPEB. The rules for being assigned to an OPEB plan are independent from retirement system membership rules. Just because a person has been incorrectly assigned to a retirement system does not necessarily mean that he has also been assigned to the wrong OPEB program. Therefore, we estimate there will be no cost or revenues to the sponsors of OPEB benefits.

OPEB Fiscal Cost: Table B

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

C1 <u>Estimated Fiscal Impact − Other Government Entities (unrelated to the retirement systems or OPEB)</u>
Prepared by Tanesha Morgan, Legislative Fiscal Office, Relative to the State Retirement Systems

1. Narrative

Section C1 pertains to the state retirement systems.

Proposed law provides that any person who was enrolled in the wrong system by error but who should have been in one of the systems covered by *proposed law* shall be transferred to the system for which his employment makes him eligible.

Fiscal Costs for Other Government Entities: Table C1

EXPENDITURES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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	See below	See below	See below	See below	See below	See below
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	**2017-18**	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**	**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

2. Expenditures:

The proposed legislation addresses membership and enrollment errors in the state and statewide retirement systems. To the extent that there was an overpayment of contributions to a system, the employee receives a refund for the overpayment and the appropriate system credits the agency’s account in the amount of the overpayment. To the extent that there was an underpayment of contributions to a system, the employer will bear the cost.

3. Revenues:

There is no anticipated direct material effect on governmental revenues as a result of this measure.

C2 <u>Estimated Fiscal Impact − Other Government Entities (unrelated to the retirement systems or OPEB)</u>
Prepared by Mike Battle, Audit Manager for the LLA, Relative to the Statewide Retirement Systems

1. Narrative

Section C2 pertains to the statewide retirement systems.

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of SB 8 on such government entities. A fiscal cost is denoted by “Increase” or a positive number. Fiscal savings are denoted by “Decrease” or a negative number.

Fiscal Costs for Other Government Entities: Table C2

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	See below	See below	See below	See below	See below	See below
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

SB 8 will have the following effects on fiscal costs related to other government entities during the five year measurement period.

2. Expenditures:

There may be a minimal indirect effect on the expenditures of individual local entities (e.g. municipalities, parish governments, assessors' offices, district attorney offices) as a result of this measure. The bill provides for the correction of an enrollment error for a person incorrectly enrolled in any Louisiana public pension or retirement system, plan, or fund who should have been enrolled in one of the state or statewide retirement systems. If enrollment errors are made, the bill requires the employer (e.g. municipality, parish government, assessor's office, district attorney office) to pay any fee or cost for the actuarial cost calculation for the service credit transfer. Based on information from the Municipal Employees' Retirement System and Louisiana Municipal Association, this cost could be $300-$500 per case. However, based on information from various statewide retirement systems and associations, enrollment errors are infrequent.

3. Revenues:

There is no anticipated indirect material effect on the revenues of individual local entities (e.g. municipalities, parish governments, assessors' offices, district attorney offices) as a result of this measure. The bill provides for the correction of an enrollment error for a person incorrectly enrolled in any Louisiana public pension or retirement system, plan, or fund who should have been enrolled in one of the state or statewide retirement systems. Therefore, this bill will have no fiscal impact on revenues.

D. Estimated Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities

1. Narrative

Table D shows the estimated fiscal impact of SB 8 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective cell values in Table A, Table B, and Table C. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C2)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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	See Table C	See Table C	See Table C	See Table C	See Table C	See Table C
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	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

2017 REGULAR SESSION
ACTUARIAL NOTE SB 8

Credentials of the Signatory Staff:

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.

John D. Carpenter, Legislative Fiscal Officer, supervised the preparation of the fiscal analyses contained in Section II; Subsection C relative to the state retirement systems.

Mike Battle, Audit Manager for the LLA, supervised the preparation of the fiscal analysis contained in Section II; Subsection C relative to the statewide retirement systems.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

☐ SB 8 contains a retirement system benefit provision having an actuarial cost.

No member of any Louisiana public retirement system will receive a larger benefit than he should receive because of a membership error.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

Senate

☐ 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Senate Finance

☐ 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

☐ 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:
Dual Referral to Appropriations

☐ 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:
Dual Referral: Ways and Means