


**2016 REGULAR SESSION
ACTUARIAL NOTE SB 3**

<p>Senate Bill 3 SLS 16RS-24 Engrossed</p> <p>Author: Senator Barrow Peacock Date: March 23, 2016</p> <p>LLA Note SB 3.02</p> <p>Organizations Affected: Firefighters' Retirement System</p> <p>EG 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 SB 3 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: FIREFIGHTERS RETIREMENT. Provides benefits for members hired on or after January 1, 2017. (6/30/16)

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	Decrease
Total Five Year Fiscal Cost	
Expenditures	\$(4,000,000)
Revenues	\$(4,000,000)

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 to:</u>	<u>Change in the Actuarial Present Value</u>
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 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	2016-17	2017-18	2018-19	2019-2020	2020-2021	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	(250,000)	(750,000)	(1,250,000)	(1,750,000)	(4,000,000)
Annual Total	\$ 0	\$ (250,000)	\$ (750,000)	\$ (1,250,000)	\$ (1,750,000)	\$ (4,000,000)

REVENUES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	0	(250,000)	(750,000)	(1,250,000)	(1,750,000)	(4,000,000)
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	\$ (250,000)	\$ (750,000)	\$ (1,250,000)	\$ (1,750,000)	\$ (4,000,000)

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Bill Information:

Current Law

Current law provides for retirement eligibility, a 3 year final average compensation (FAC) period, and 3 1/3% accrual rate for all members of Firefighters Retirement System (FRS), as shown in the table below.

Proposed Law

SB 3 changes the retirement eligibility, the FAC computation period, the determination of additional benefits for service earned after exiting DROP, and the accrual rate for employees of FRS hired on or after January 1, 2017. These changes are summarized below.

For Members of FRS Hired on or after January 1, 2017		
	Current Law	SB 3
Retirement Eligibility and Benefits		
Retirement eligibility	<ul style="list-style-type: none"> • 25 or more years of service at any age • 20 or more years of service at age 50 • 12 or more years of service at age 55 	<ul style="list-style-type: none"> • 20 or more years of service at age 50 • 12 or more years of service at age 55
FAC	3 years	5 years
Anti-spiking cap	15%	15%
Accrual rate	3 1/3%	<ul style="list-style-type: none"> • 3 1/3%, only if a member has earned 30 or more years of service • 3%, otherwise
Retirement benefits	3 1/3% * FAC * Years of service	<ul style="list-style-type: none"> • 3 1/3% * FAC * Years of service; (if earned at least 30 years of service) • 3% * FAC * Years of service; (if Years of service < 30)
Deferred Retirement Option Plan (DROP)		
Retirement benefits for additional service earned after exiting DROP	Use FAC earned after exiting DROP if member earns at least 3 or more years of creditable service after exiting DROP.	Use FAC earned after exiting DROP if member earns at least 5 or more years of creditable service after exiting DROP.

Implications of the Proposed Changes

SB 3 creates a new tier of benefits in FRS for members hired on or after January 1, 2017.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

SB 3 has no effect on any current member of FRS. The actuarial present value of future benefit payments for existing members will not change. SB 3 has no effect on accrued liabilities because it applies to members first employed in the future.

SB 3 provides for a longer FAC period, lower benefit accrual rates and later retirement ages for members first employed on or after January 1, 2017. As a result, the present value of future benefit payments for future members will decrease. Future normal costs and future employer contribution requirements will also decrease. However, savings from SB 3 will not begin to be recognized until new members, first employed on or after January 1, 2017, begin to replace current active members.

The estimated effect of SB 3 on various actuarial cost measures is shown below. This analysis is partially based on information provided to the FRS by G.S. Curran & Company, Ltd in prior years.

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Change in	Reduction in Normal Cost	
	Long Term over 25 or 30 years	Short Term within 5 years
FAC Period from 3 years to 5 years	1.08%	0.31%
Accrual Rate from 3 1/3% to 3% with 3 1/3% retroactive for members with 30 or more years of service	1.75%	0.51%
Retirement eligibility by eliminating 25 & out provisions	0.43%	0.18%
Total	3.26%	1.00%

Other Post-Employment Benefits

There are potential savings associated with other post-employment benefits (OPEB) depending upon the OPEB plan provisions for firefighters. SB 3 will potentially delay the retirement of certain members of FRS:

1. Those with at least 25 years of service before attaining age 50 will wait until they attain 50 years of age to receive normal retirement benefits.
2. Those who have at least 27 years of service credit may continue their employment until they earn 30 years of creditable service to receive higher retirement accruals at 3 1/3% rather than 3.0%.

As a result, firefighters will be receiving OPEB benefits for a shorter period of time and costs will be less.

Analysis of Fiscal Costs

SB 3 will have the following effect on fiscal costs.

Expenditures:

1. Annual expenditures from FRS (Agy Self-Generated) will decrease because benefits provided to new members are lower under SB 3 than the current law. However, this decrease is expected to be negligible during the 5-year measurement period because SB 3 will only affect members' death or disability benefits incurred in-line-of duty.
2. Annual expenditures from Local Funds will decrease because benefits provided to new members will decrease. Employer contribution requirements will decrease because benefits decrease. The expected decrease is shown below:

Fiscal Year Ending	Estimated Decrease in Employer Contributions
2017	\$ 0
2018	250,000
2019	750,000
2020	1,250,000
2021	1,750,000

Revenues:

- FRS revenues (Agy Self-Generated) will decrease to the extent that employer contribution requirements decrease.

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 SB 3 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.

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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