STATE RETIREMENT SYSTEMS OF LOUISIANA

House Retirement Committee

April 7, 2022

LOUISIANA PUBLIC RETIREMENT SYSTEMS

Louisiana has a total of 13 state and statewide retirement systems.

State Retirement Systems	Statewide Retirement Systems	
1. Teachers' Retirement System of Louisiana	1. Firefighters' Retirement System of Louisiana	6. Municipal Police Employees' Retirement System
2. Louisiana State Employees' Retirement System	2. Municipal Employees' Retirement System of Louisiana	7. Louisiana Assessors' Retirement Fund
3. Louisiana School Employees' Retirement System	3. Registrars of Voters Employees' Retirement System of Louisiana	8. District Attorneys' Retirement System
4. Louisiana State Police Retirement System	4. Parochial Employees' Retirement System of Louisiana	9. Clerks of Court Retirement and Relief Fund
	5. Sheriffs' Pension and Relief Fund	

STATE RETIREMENT SYSTEMS: STRUCTURE

Louisiana Constitution (Article X Section 29)
Applicable to state retirement systems:

- Legislature must provide for the retirement of **state** retirement system members.
- Membership in a **state** retirement system is a **contractual relationship** between employees and employers.
- Benefits for members of a **state** retirement system are **guaranteed**.

LOUISIANA PUBLIC RETIREMENT SYSTEMS: STRUCTURE

Louisiana Constitution (Article X Section 29)

Applicable to state and statewide retirement systems:

- Actuarial soundness of Louisiana's state and statewide public retirement systems must be attained and maintained.
- System assets must be held in trust for exclusive purpose of providing retirement income to system members and beneficiaries.
- Trust assets are not public funds or part of state general fund.
- Accrued benefits shall not be diminished or impaired.

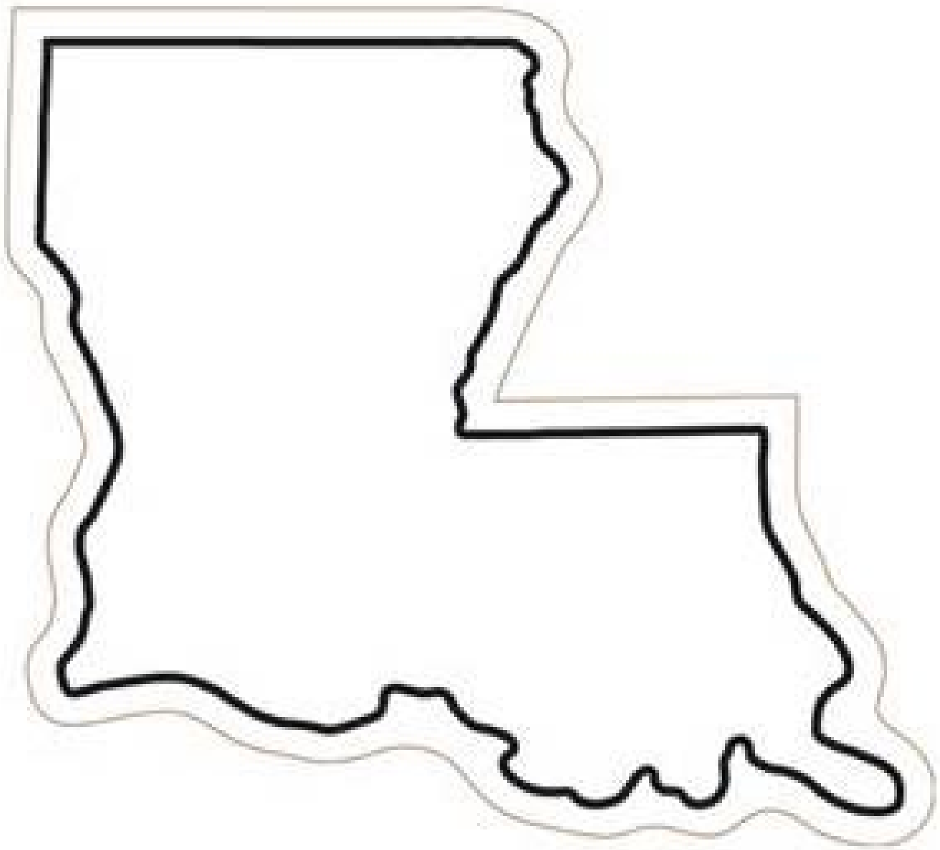
STATE RETIREMENT SYSTEMS: GOVERNANCE

Each system has a board of trustees.

- Trustees (board members) manage the trust and have exclusive authority over assets for sole purpose of paying benefits.
- Board members are elected by membership; include ex officio members
- Board members are **fiduciaries of the trust and have the legal responsibility to act in the best interests of their system's members**.

STATE RETIREMENT SYSTEMS: BENEFITS

- **Louisiana chose not to have its public employees participate in Social Security—therefore, the state is required to provide a Social Security equivalent pension.**
  - » State systems administer **qualified defined benefit retirement plans** under the IRS Internal Revenue Code Section 401(a)
  - » **Lifetime** retirement income for career public servants and beneficiaries
  - » Part of **entire** compensation package (deferred until retirement).



STATE RETIREMENT SYSTEMS: BENEFITS

Benefit formula defined in statute

Years of service

×

Average Salary

×

Benefit Accrual Factor (i.e. 2.5%)

=

Maximum Retirement Benefit

Example calculation

30 years of service

×

$38,500 average salary

×

2.5% benefit accrual factor

=

$28,875 maximum retirement benefit

($2,406/month)

RETIREMENT PLANS: MAJOR TYPES

	Defined Benefit Plan (pension)	Defined Contribution Plan (401k-style)
Benefit amount	▪ Based on years of service, average salary, and accrual factor (i.e. 2.5%)	▪ Based on employee and employer contributions and investment return on those contributions
Duration of benefit	▪ Provides lifetime benefit to retiree (and beneficiary, if chosen)	▪ Based on balance in individual's defined contribution account
Survivor and disability benefits	▪ Generally includes provisions that outline eligibility based on service credit	▪ Generally determined by balance in individual's defined contribution account; distribution methods may vary
Investment decisions	▪ Managed by investment professionals	▪ Managed by employee
Portability	▪ Generally transferrable to other public retirement systems	▪ Generally portable to other qualified retirement plans

DEFINED BENEFIT: BASIC PENSION EQUATION

Contributions + Investment Income = Benefits + Expenses

Contributions

Employee + Employer Contributions
=
Normal Cost
+
UAL Payment
+
Administrative Expenses

Investment Income

Generally provides between 50% and 80% of plan income

Benefits

Benefit formula and eligibility requirements defined by state statute

Expenses

Cost of administering the plan

FUNDING RETIREMENT: EMPLOYER CONTRIBUTION

Employer portion of Normal Cost + **Administrative Expense** + **Unfunded Accrued Liability (UAL) Payment** = **Total Employer Contribution Rate**

Normal cost is the cost allocated to benefits currently being earned.

- Paid by employee and employer contributions
- Employer contribution (% of payroll) determined annually by system's actuary
- Employee contribution (% of salary) set by statute

Non-investment related admin expenses are included in the annual employer contribution rate.

- Directly incorporated into employer contribution:
  - since 2016 for LSERS and LSPRS
  - since 2018 for TRSL and LASERS

The UAL is the difference between a system's actuarial value of assets and its liabilities.

- The state chose to pay the UAL through employer contributions as a percentage of active member payroll.
- All participating employers share in the payment of the UAL.
- UAL payment is determined annually by the system actuary

FUNDING RETIREMENT: NORMAL COST

NORMAL COST: The cost allocated to benefits being earned in the current year.

FY 2022-23: Normal Cost (% payroll, aggregate for all plans)	
	LASERS
Total Normal Cost	11.2%
Less Employee	8.1%
= Employer	3.1%

DID YOU KNOW?

Actuarial cost method: Benefits are funded throughout the member's entire working career. State systems use the **entry age normal (EAN)** cost method, which intends to fund benefits with a level percentage of payroll over a member's career.

Note: If state employees were in Social Security the cost to the employer would be 6.2%.

THE UAL: A DEEPER DIVE

The UAL is the **excess** of the actuarial accrued liability **over** the valuation assets.

Actuarial Accrued Liability

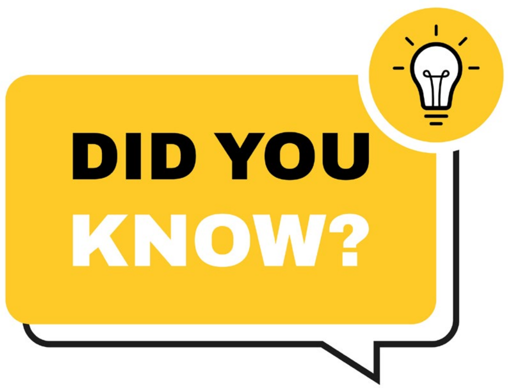
Present value of benefits attributable to service credit earned (or accrued) as of the valuation date

Assets available to pay regular plan benefits, which are determined by gradually recognizing investment gains and losses over a 5-year period

Valuation Assets

THE UAL: WHAT IS THE INITIAL UAL (IUAL)?

- The **initial unfunded accrued liability (IUAL)** is the debt that existed as of June 30, 1988.
- Constitutional amendment in 1987 required full payment of actuarially determined contributions **and** IUAL to be paid by 2029.
- IUAL for LSERS and LSPRS has been paid; IUAL for TRSL and LASERS will be paid by 2029, possibly sooner.



- Systems were created and benefits immediately paid without prior funding.
- Before 1989, systems did not receive actuarially determined contributions.
- Benefit increases and enhancements were provided without funding source.
- COLAs—now called permanent benefit increases (PBIs)—were granted without funding source.

THE UAL: MAKING PROGRESS

Significant legislative reforms since 2009 have:

- Eliminated the back-loaded UAL payment schedule, which was established in 1992 and resulted in UAL payments that did not keep up with accruing interest; and
- Increased the proportion of investment experience gains used to reduce the UAL rather than credit a separate account used to fund future PBIs.

Amount of excess investment earnings applied directly to UAL since 2009:			
TRSL	**LASERS**	**LSERS**	**LSPRS**
$1.7 billion	$516.8 million	$65.0 million	$26.7 million

THE UAL: MAKING PROGRESS

Impact of reforms	
	▪ UAL will continue to change annually as plan experience develops. ▪ Still, overall the UAL is <u>**expected to continue to decrease**</u> as principal is reduced annually. ▪ Once historic debt is paid off, <u>**systems should remain at or near full funding.**</u>

PERMANENT BENEFIT INCREASE (PBI): HISTORY

- Before 1992, there was no **defined** funding source for PBIs.
- Legislature created Experience Accounts (EA) for each state retirement system.

WHAT IS THE EXPERIENCE ACCOUNT?

- It is a **separate retirement system account** established to set aside funds for PBIs.
- A portion of system **excess investment earnings** are deposited in EA.
- The EA is designed to ensure PBIs are **pre-funded**.
- By law, **sufficient funding in EA is necessary** to grant a PBI.
- Prior to 2010, the EA was credited (debited) with 50% of investment earnings above (below) system's actuarial assumed rate of return.

PERMANENT BENEFIT INCREASE (PBI): CURRENT

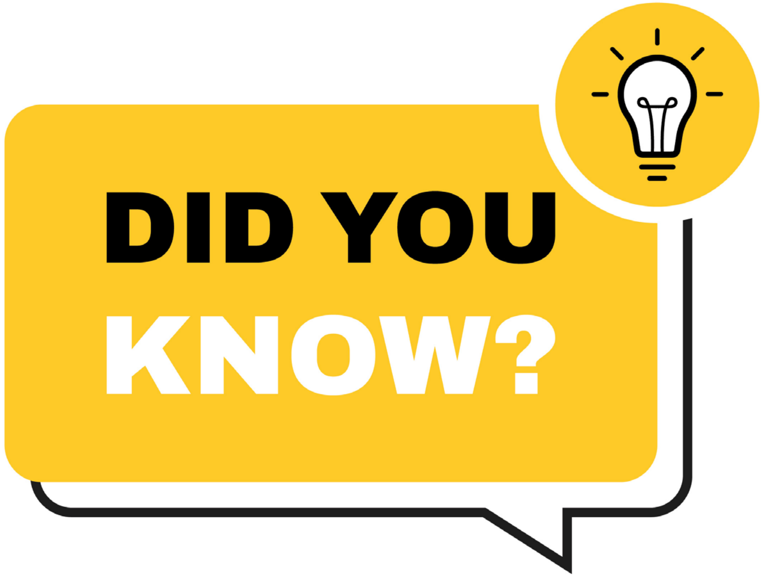
Legislative Reforms (Act 497 of 2009)

- Directed more excess investment earnings to UAL before crediting to EA
- Tied PBI granting, size, and frequency to system funding level
- Capped EA balance at the cost of one PBI until system is at least 80% funded
- No PBI granted in any year when system earns less than actuarial valuation rate **and** less than 80% funded.
- Increased regular retirees eligibility age from 55 to 60

Other legislative reforms

- Changed granting requirement from resolution to bill, needing 2/3 legislative approval and subject to gubernatorial veto
- Lowered PBI limit to first $60,000 of benefit (indexed) from first $70,000

PERMANENT BENEFIT INCREASE (PBI): FUNDING IMPACT



On employers and the UAL:

- Employers fund PBIs **<u>indirectly</u>** by foregoing investment experience gains that would have otherwise reduced the UAL and employer contribution rate.
- Still, when legislature **<u>grants</u>** a PBI, the EA disburses an amount equal to the increase in the actuarial accrued liability. Therefore, the UAL change = $0.

PLAN SUSTAINABILITY: GOOD NEWS!

Louisiana has been a leader in pension sustainability.

- Voters passed a 1987 constitutional amendment to actuarially fund state systems.
- Since then, sensible reform measures have been enacted that support the financial soundness of each system—particularly Act 497 of 2009 to prioritize reducing debt.
- New actuarial cost method (entry age normal) was adopted, resulting in more level normal costs.
- Systems have reduced their discount rates to align with expected future investment earnings.
- Debt is on track to be paid off on time with a projected $8 billion in long-term savings for the state.

What this means:

- **UAL expected to be paid off on time**
- **Employer contributions expected to decrease**
- **System funded status expected to increase**

STATE RETIREMENT SYSTEMS: MEMBERSHIP

The four state retirement system memberships include:

Teachers' Retirement System of Louisiana (TRSL)	Louisiana State Employees' Retirement System (LASERS)	Louisiana School Employees' Retirement System (LSERS)	Louisiana State Police Retirement System (LSPRS)
Public school teachers, school food service personnel, and certain higher education employees	State employees, including hazardous duty and judicial employees	Non-instructional public school employees, including school bus operators, custodians, and maintenance personnel	State police officers

SYSTEMS AT-A-GLANCE: LASERS

FINANCIALS:	FY 2021	FY 2020	FY 2019
▪ Total net assets	$14.7 billion	$11.4 billion	$12.82 billion
▪ Investment return *(net of fees)*	35.4%	-4.0%	4.1%
▪ Actuarial return	9.95%	3.94%	5.18%
▪ Funded ratio	66.0%	64.1%	64.1%
▪ UAL balance	$6.87 billion	$7.07 billion	$7.01 billion
▪ Total benefits paid	$1.43 billion	$1.40 billion	$1.38 billion
DEMOGRAPHICS:	**FY 2021**	**FY 2020**	**FY 2019**
▪ Active members	38,572	39,487	39,533
▪ Retirees and beneficiaries	49,535	49,341	49,269
▪ Average rank-and-file annual benefit	$27,516	$27,000	$26,568