



STATE RETIREMENT SYSTEMS OF LOUISIANA

Senate Retirement Committee
March 18, 2024

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: 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

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.**



FIDUCIARY DUTY: A LEGAL FRAMEWORK

The Louisiana Constitution, state law, and federal tax law require fiduciaries to act solely in the interest of system members and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries.

- **Constitution (La. Const. Art. 10 Section 29(E)(5)):** All assets of state and statewide systems are under the management of systems' boards and must be held and invested for the exclusive purpose of providing benefits and paying system administrative expenses.
- **Exclusive interest rule: (L.R.S. 11:264.4):** Fiduciary must discharge his duties within the law, solely in the interest of system members and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries and paying the expenses of administering the plan.
- **Exclusive benefit rule (Internal Revenue Code Section 401(a)(2)):** All activities of any tax-sheltered retirement plan must be for the exclusive benefit of plan beneficiaries, and investments of the plan must be in the best interest of growing plan savings and meeting the retirement benefit needs of the plan participant(s).

HOW DO FIDUCIARIES FULFILL THEIR DUTIES?

- Exercise **due diligence** in the evaluation of investment opportunities, products, and services as well as the monitoring of investment manager/consultant performance.
- Adhere to **prudent-man rule (L.R.S. 11:263)** by acting with the care, skill, and diligence of a prudent institutional investor in all matters related to the investment of system assets.
- Seek to meet **investment assumptions** by making investment decisions based on the net return that is expected relative to the risk that is associated with each investment using pecuniary factors only.

STATE RETIREMENT SYSTEMS: BENEFITS

- Most of Louisiana's public employees do not 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

$$\begin{array}{c} \text{Years of service} \\ \times \\ \text{Average Salary} \\ \times \\ \text{Benefit Accrual Factor (i.e. 2.5\%)} \\ = \\ \text{Maximum Retirement Benefit} \end{array}$$

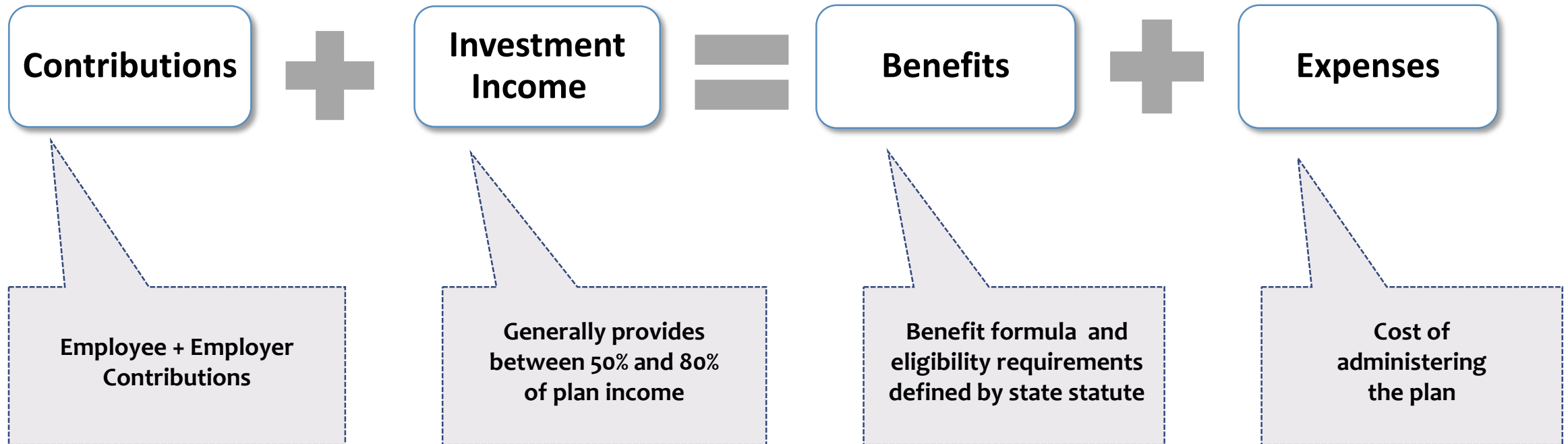
Example calculation

$$\begin{array}{c} 30 \text{ years of service} \\ \times \\ \$38,500 \text{ average salary} \\ \times \\ 2.5\% \text{ benefit accrual factor} \\ = \\ \$28,875 \text{ maximum retirement benefit} \\ (\$2,406/\text{month}) \end{array}$$

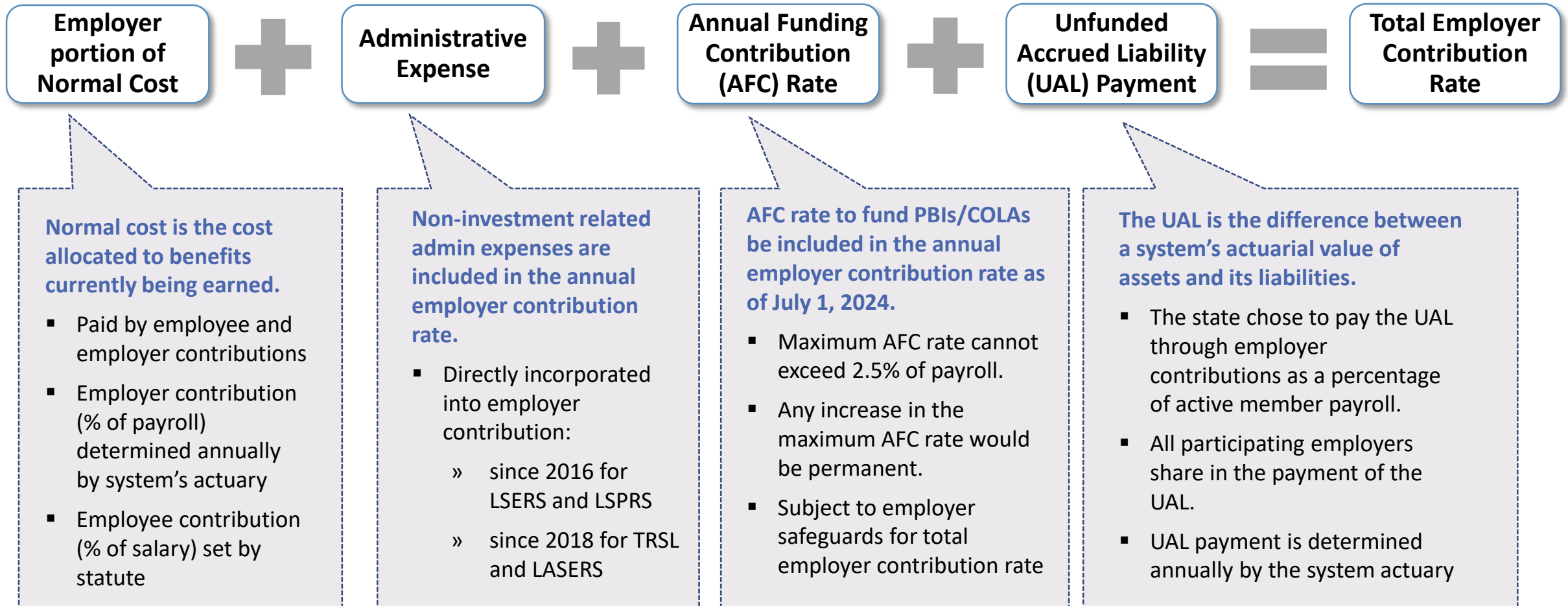
RETIREMENT PLANS: MAJOR TYPES

	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
Benefit Duration	Provides lifetime benefit to retiree and beneficiary, if chosen	Based on balance in individual's defined contribution account
Survivor & 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 FUNDING



FUNDING RETIREMENT: EMPLOYER CONTRIBUTION



FUNDING RETIREMENT: NORMAL COST

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

FY 2024-25: Normal Cost (% payroll, aggregate for all plans)

	TRSL	LASERS	LSERS	LSPRS
Total Normal Cost	11.40%	11.2%	14.97%	29.99%
Less Employee	7.98%	8.1%	7.73%	9.05%
= Employer	3.43%	3.1%	7.24%	20.94%



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.

FUNDING RETIREMENT: UNFUNDED ACCRUED LIABILITY (UAL)

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

FY 2024-25: UAL Payment

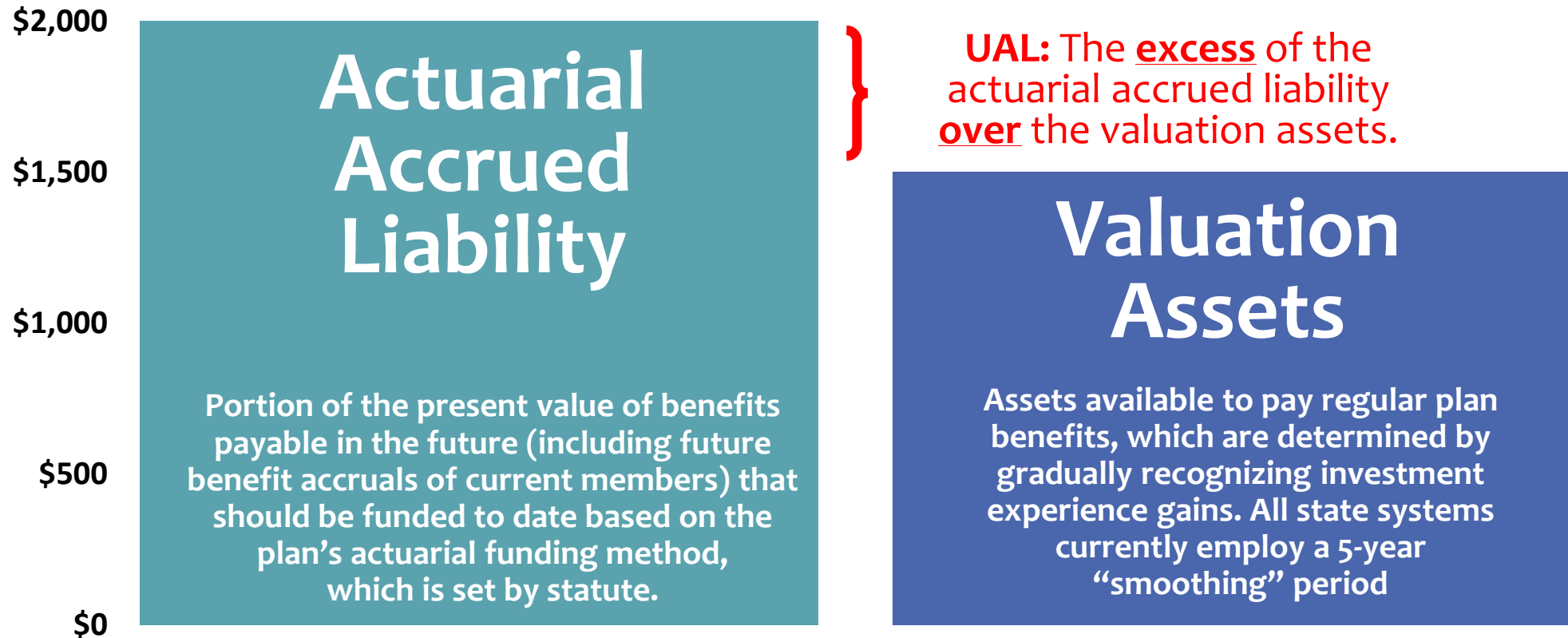
TRSL		LASERS		LSERS		LSPRS	
Payment	% of payroll	Payment	% of payroll	Payment	% of payroll	Payment	% of payroll
\$898.4 M	15.9%	\$661.3 M	30.0%	\$55.3 M	15.35%	\$40.2	49.78%

Does a decrease in membership increase the UAL?

No, it does not increase the dollar amount of the required UAL payment. However, it does increase the employer contribution rate because the dollar amount is divided by current payroll. In other words, since the dollar amount is spread over a lower payroll (fewer employees), the employer contribution rate would be higher.



THE UAL: A DEEPER DIVE



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.

DID YOU KNOW?



- 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
\$2.3 billion	\$654.8 million	\$85.4 million	\$26.7 million

*Applied to UAL balances in addition to required annual UAL payments

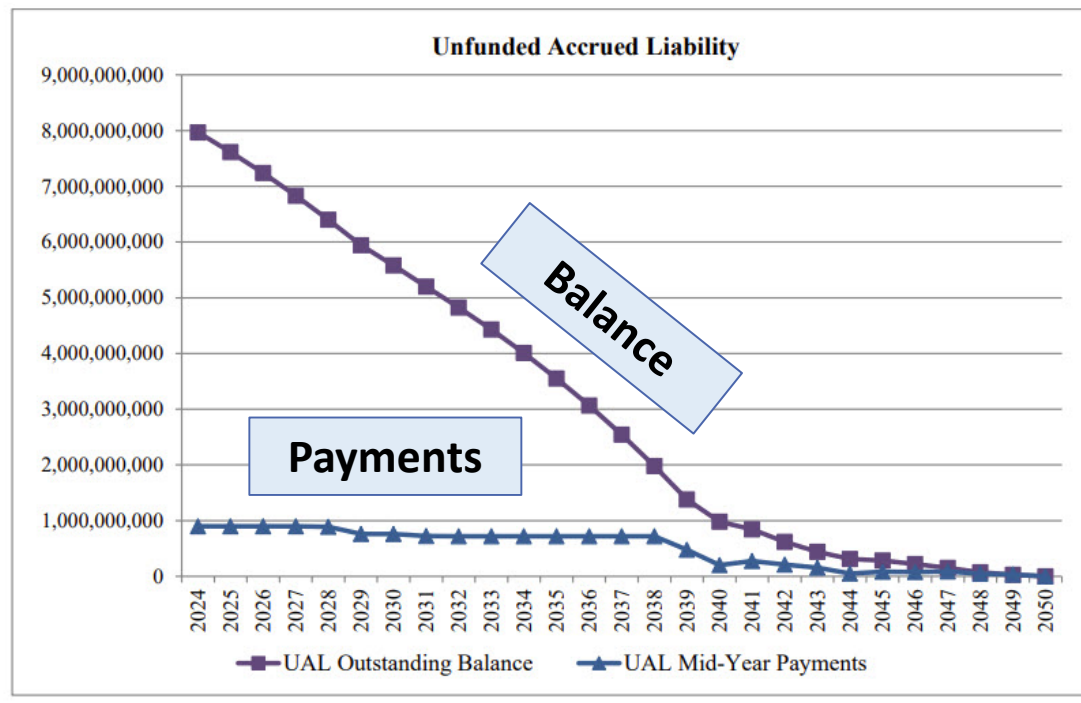
THE UAL: MAKING PROGRESS

Impact of reforms

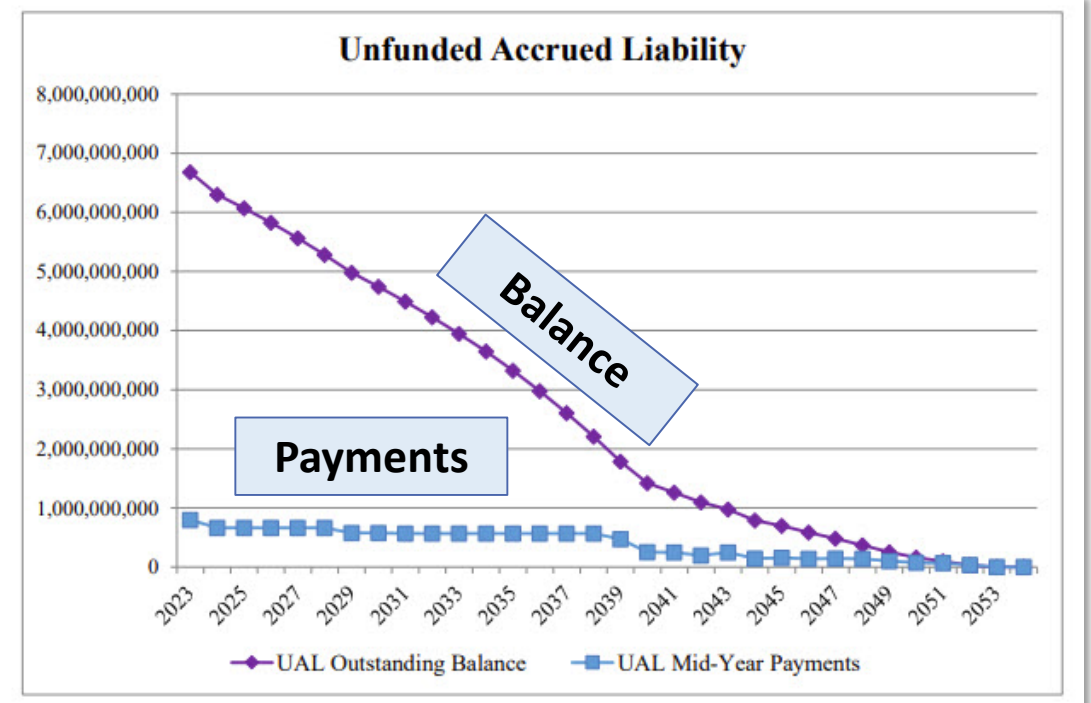
- UAL will continue to change annually as plan experience develops.
- Still, overall the UAL is expected to continue to decrease as principal is reduced annually.
- Once historic debt is paid off, systems should remain at or near full funding.

THE UAL: MAKING PROGRESS

UAL Balance & Payment: TRSL



UAL Balance & Payment: LASERS



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**

FUNDING RETIREMENT: ANNUAL FUNDING CONTRIBUTION (AFC) RATE

AFC RATE: Amount to fund PBIs/COLAs

FY 2024-25: AFC Rate (% of payroll)

TRSL	LASERS	LSERS	LSPRS
1.50%	1.50%	1.80%	0.00%



DID YOU KNOW?

Act 184 of 2023 changed the way PBIs/COLAs are funded, moving away from the gain-sharing model that relied on excess investment returns. The new model builds the cost of funding PBIs/COLAs directly into the employer contribution rate, providing a more reliable and transparent way to fund these benefit increases. Inclusion of the AFC rate into the employer contribution rate was timed to coincide with the overall decrease in required employer contributions, due to the decreasing UAL balance.

SYSTEMS AT A GLANCE: FY 2023 DATA

FINANCIALS:	TRSL	LASERS	LSERS	STATE POLICE
Total net assets	\$26.12 B	\$14.49 B	\$2.21 B	\$1.07 B
Investment return (<i>net of fees</i>)	6.8%	11.7%	7.44%	7.45%
Actuarial return	6.79%	6.07%	7.16%	5.12%
Funded ratio	75.8%	68.5%	77.4%	76.42%
UAL balance	\$8.50 B	\$6.68 B	\$634.2 M	\$338.4 M
Total benefits paid	\$2.43 B	\$1.419 B	\$190.6 M	\$78 M
Active members	88,527	38,414	11,486	903
Retirees and beneficiaries	83,525	49,928	13,876	1,395
Average annual benefit (<i>Regular retiree</i>)	\$27,378	\$28,512	\$14,414	\$41,314

SYSTEMS AT A GLANCE: DIRECTORS

Teachers' Retirement System of Louisiana (TRSL)

www.trsl.org

Katherine Whitney, Director

Louisiana State Employees' Retirement System (LASERS)

www.lasersonline.org

Trey Boudreaux, Executive Director

Louisiana School Employees' Retirement System (LSERS)

www.lasers.net

Charles P. Bujol, Executive Director

Louisiana State Police Retirement System (LSPRS)

www.lsprs.org

Margaret Corley Michel, Executive Director