

Office of Legislative Auditor

Funding of Louisiana State Retirement Systems



Information Report

March 2006

The information contained in this report was developed as the result of a performance audit we initiated but did not complete on the Unfunded Accrued Liability (UAL) of the following four state retirement systems:

- Louisiana State Employees' Retirement System (LASERS)
- Teachers' Retirement System of Louisiana (TRSL)
- Louisiana School Employees' Retirement System (LSERS)
- State Police Pension and Retirement System (STPOL)

Because of the impact of hurricanes Katrina and Rita, we were not able to conduct all the necessary tests and analyses to answer the audit objectives. Therefore, we present information in this report that we believe will assist in understanding the UALs of the four state retirement systems and the efforts Louisiana is taking to address retirement system funding.

I hope this information will benefit you in your legislative decision-making process.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve J. Theriot". The signature is fluid and cursive, with a long horizontal stroke at the end.

Steve J. Theriot, CPA
Legislative Auditor

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Background Information for Louisiana's State Retirement Systems

Article X, Section 29 of the Louisiana Constitution of 1974 provides that the legislature shall provide for retirement of teachers, other employees of the public education system, and state employees, and this provision is to be done by establishment of one or more retirement systems. There are four state retirement systems:

- Louisiana State Employees' Retirement System (LASERS) which was established by Act No. 126 in 1946
- Teachers' Retirement System of Louisiana (TRSL) which was established by Act No. 83 in 1936
- Louisiana School Employees' Retirement System (LSERS) which was established by Act No. 124 in 1946
- State Police Pension and Retirement System (STPOL) which was established by Act No. 293 in 1938

Defined Benefit Retirement Systems versus Defined Contribution Retirement Systems.

Defined benefit plans and defined contribution plans are the two main types of retirement pensions sponsored by U.S. employers. Louisiana's four state retirement systems are qualified defined benefit pension and retirement plans under 401(a) of the Internal Revenue Code.

Defined benefit pension plans guarantee eligible employees a specified monthly income for life, upon retirement. The plan sponsor (retirement system) makes all investment decisions, is responsible for the funding adequacy of the plan, and thus bears the liability for future payments to its retirees. The plan sponsor assumes the risk if the fund under-performs or fails. Defined contribution plans differ from defined benefit plans because individual employees make investment decisions and assume all the investment risk. Defined contribution plans do not guarantee a specific schedule of benefit payments. The amount of retirement benefits an employee receives is based on the contributions made into his/her account and investment gains/losses.

Discussion of Terms Related to Financial Health of Defined Benefit Retirement Systems

Unfunded Accrued Liability (UAL). One measure of a defined benefit retirement system's financial health is the amount of its unfunded accrued liability (UAL). UAL is defined as that portion of the actuarially calculated liabilities of a system not funded by the actuarially determined value of the system's current assets. In other words, UAL is the present value of benefits earned-to-date that is not covered by a retirement plan's assets (as of a particular valuation date).

Actuarial Funding Ratio. The most recognized measure of a defined benefit retirement system's financial health is its actuarial funding ratio/level. Funding ratio is defined as the actuarially determined value of assets divided by the actuarially calculated liabilities for benefits accrued-to-date. In other words, it is the ratio of the value of the retirement system's assets to the value of benefits system members have earned. Funding ratio and UAL are companion statistics. If the UAL of a system goes down, then the system's funding ratio will go up, and vice versa.

Fully Funded versus Underfunded. A retirement system/plan whose assets equal its actuarial accrued liabilities is funded at 100% and is considered fully funded. A retirement plan whose assets are less than its liabilities has an unfunded liability, and is considered underfunded. The term "underfunded" does not mean that a retirement system is unable to pay the benefits for which it is presently obligated. Rather, a retirement system that is "underfunded" cannot pay both the benefits obligated to current retirees, and the benefits already accrued by future retirees all at once. Except in rare instances where a retirement plan is terminated, all of a retirement system's obligations do not come due at once.

Current and future obligations extend continuously many years into the future, thus allowing the system time to accrue these obligated assets through a combination of contributions and investment earnings. Underfunded plans require contributions and investment earnings both to finance benefits currently being accrued, as well as to eliminate the shortfall between the plan's assets and its accrued liabilities.

Variations in Determining Actuarial Funding. Actuarial funding (valuation) methods are discretionary. Determining the amount of assets needed to fully fund a retirement system varies and is contingent upon three factors:

1. The actuarial cost method used to allocate pension costs and contributions over a member's working career
2. The asset (valuation) method used to determine actuarial value of assets
3. The actuarial assumptions adopted concerning uncertain future events or experiences

Examples of actuarial assumptions include the following:

- Rate of return on investments
- Mortality rates
- Rates at which plan participants are expected to leave the system because of retirement, disability, or termination
- Interest rate assumptions

Factors That Influence UAL/Funding Ratio. Many factors affect whether a retirement system's liabilities and assets will increase or decrease. Four main factors that influence the UAL/funding ratio of a defined benefit pension system are:

- (1) contributions into the system by employers and employees;
- (2) increasing/decreasing retirement benefits;
- (3) investment earnings/losses; and
- (4) actuarial assumptions.

Other factors include cash flow concerns, mortality differentials between sexes, demographic and lifestyle changes, and the ratio of active to inactive members.

The overall impact of one of these factors on a system's UAL and funding ratio is dependent on the impact of the other factors. For example, granting additional retirement benefits can offset increased assets from above-average investment earnings.

Trends in the Funding Ratios and UALs for Louisiana's State Retirement Systems

Twenty-Year Funding Ratio Trends. As shown in Exhibit 1 on the following page, three of the four state retirement systems have incurred an increase in their funding ratio over a 20-year period. From fiscal years 1985 through 2005, TRSL's funding ratio increased 18.1 percentage points, and STPOL's funding ratio increased 53.3 percentage points. LASERS' funding ratio increased 8.9 percentage points from fiscal years 1987 through 2005. However, LSERS' funding ratio decreased 15.0 percentage points from fiscal years 1985 through 2005.

Recent Funding Ratio Trends. Beginning around fiscal year 2001 through fiscal year 2004, the funding levels for all four state retirement systems declined steeply primarily because of the downturn in the investment (equity) market during this time period. However, in fiscal year 2005, TRSL, LASERS, and STPOL incurred an increase in their funding ratio, and LSERS incurred only a 0.5% decrease in its funding ratio.

| Exhibit 1 State Retirement Systems Funded Ratios Fiscal Years 1985 - 2005* | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------|---------------|--------------|
| Fiscal Year | TRSL | LSERS | LASERS | STPOL |
| 1985 | 46.5% | 90.3% | * | 9.1% |
| 1986 | 48.4% | 71.4% | * | 8.3% |
| 1987 | 45.9% | 106.3% | 52.6% | 6.6% |
| 1988 | 42.0% | 109.8% | 52.8% | 4.7% |
| 1989 | 42.5% | 111.8% | 53.1% | 2.1% |
| 1990 | 46.8% | 117.5% | 53.9% | 8.2% |
| 1991 | 48.2% | 104.6% | 55.9% | 15.1% |
| 1992 | 50.6% | 106.9% | 57.4% | 18.9% |
| 1993 | 53.9% | 106.2% | 59.4% | 24.1% |
| 1994 | 57.4% | 109.0% | 61.9% | 30.8% |
| 1995 | 59.4% | 108.5% | 64.3% | 34.6% |
| 1996 | 62.8% | 109.9% | 65.8% | 41.3% |
| 1997 | 64.2% | 110.0% | 69.9% | 53.0% |
| 1998 | 68.8% | 117.7% | 72.9% | 60.3% |
| 1999 | 72.5% | 120.7% | 73.5% | 63.8% |
| 2000 | 77.9% | 120.5% | 74.7% | 72.3% |
| 2001 | 78.4% | 103.0% | 74.2% | 73.6% |
| 2002 | 73.9% | 90.6% | 70.2% | 70.3% |
| 2003 | 68.8% | 79.1% | 66.2% | 60.6% |
| 2004 | 63.1% | 75.8% | 59.6% | 60.6% |
| 2005 | 64.6% | 75.3% | 61.5% | 62.4% |
| Source: Prepared by legislative auditor's staff using TRSL, LASERS, STPOL, and LSERS audited financial statements (FY 1985 - FY 2005). | | | | |
| *Before 1987, LASERS calculated accrued benefits using a different valuation method and therefore FY 1985 and FY 1986 were not included. | | | | |

UAL Trends Among Louisiana's State Retirement Systems. Exhibits 2 through 5 on the following pages show schedules of funding progress for all state systems from FY 2000 - FY 2005. The exhibits show the amounts (Unfunded Actuarial Accrued Liability or UAAL) it would have taken to fully fund the systems in the corresponding years. As stated before, the lower a system's funded ratio the higher its unfunded accrued liability and vice versa.

| Exhibit 2 TRSL Schedule of Funding Progress | | | | |
|--------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|------------------------------------------------|---------------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (\$Thousands) (a) | Actuarial Accrued Liability (AAL) (\$Thousands) (b) | Unfunded AAL (UAAL) (\$Thousands) (b-a) | Funded Ratio (a/b) |
| 6/30/00 | \$11,368,692 | \$14,596,441 | \$3,227,749 | 77.9% |
| 6/30/01 | \$12,062,136 | \$15,390,417 | \$3,328,281 | 78.4% |
| 6/30/02 | \$12,019,552 | \$16,263,239 | \$4,243,687 | 73.9% |
| 6/30/03 | \$11,826,926 | \$17,196,812 | \$5,369,886 | 68.8% |
| 6/30/04 | \$11,409,404 | \$18,067,486 | \$6,658,082 | 63.1% |
| 6/30/05 | \$12,082,682 | \$18,699,765 | \$6,617,083 | 64.6% |

Source: Prepared by legislative auditor's staff from TRSL FY 05 supplemental financial statements.

| Exhibit 3 LSERS Schedule of Funding Progress | | | | |
|---------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------|---------------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (\$Thousands) (a) | Actuarial Accrued Liability (AAL) Entry Age (\$Thousands) (b) | (Surplus) Unfunded AAL (UAAL) (\$Thousands) (b-a) | Funded Ratio (a/b) |
| 6/30/00 | \$1,556,270 | \$1,291,823 | (\$264,447) | 120.5% |
| 6/30/01 | \$1,516,236 | \$1,472,423 | (\$43,813) | 103.0% |
| 6/30/02 | \$1,433,859 | \$1,582,071 | \$148,212 | 90.6% |
| 6/30/03 | \$1,369,601 | \$1,730,796 | \$361,195 | 79.1% |
| 6/30/04 | \$1,381,154 | \$1,820,958 | \$439,804 | 75.8% |
| 6/30/05 | \$1,423,207 | \$1,889,445 | \$466,238 | 75.3% |

Source: Prepared by legislative auditor's staff from LSERS FY 05 supplemental financial statements.

| Exhibit 4 LASERS Schedule of Funding Progress | | | | |
|----------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|------------------------------------------------|---------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (\$Thousands) (a) | Actuarial Accrued Liability (AAL) (\$Thousands) (b) | Unfunded AAL (UAAL) (\$Thousands) (b-a) | Funded Ratio |
| 6/30/00 | \$6,170,978 | \$8,257,313 | \$2,086,335 | 74.7% |
| 6/30/01 | \$6,418,296 | \$8,652,591 | \$2,234,295 | 74.2% |
| 6/30/02 | \$6,460,594 | \$9,206,734 | \$2,746,140 | 70.2% |
| 6/30/03 | \$6,487,538 | \$9,796,306 | \$3,308,768 | 66.2% |
| 6/30/04 | \$6,097,815 | \$10,237,574 | \$4,139,759 | 59.6% |
| 6/30/05 | \$6,673,500 | \$10,847,062 | \$4,173,562 | 61.5% |

Source: Prepared by legislative auditor's staff from LASERS FY 05 supplemental financial statements.

| Exhibit 5 | | | | |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------|---------------------|
| STPOL Schedule of Funding Progress | | | | |
| Actuarial Valuation Date | Actuarial Value of Assets (\$Thousands) (a) | Actuarial Accrued Liability (AAL) Entry Age (\$Thousands) (b) | Unfunded AAL (UAAL) (\$Thousands) (b-a) | Funded Ratio |
| 6/03/00 | \$244,015 | \$337,701 | \$93,686 | 72.3% |
| 6/30/01 | \$261,576 | \$355,629 | \$94,053 | 73.6% |
| 6/30/02 | \$271,694 | \$386,698 | \$115,004 | 70.3% |
| 6/30/03 | \$271,062 | \$447,694 | \$176,631 | 60.6% |
| 6/30/04 | \$288,865 | \$477,085 | \$188,220 | 60.6% |
| 6/30/05 | \$322,482 | \$516,427 | \$193,945 | 62.4% |
| Source: Prepared by legislative auditor's staff from STPOL FY 05 supplemental financial statements. | | | | |

Comparison of Louisiana's Four Public Retirement Systems to Other States' Public Retirement Systems _____

Retirement systems, from state to state, have differing fiscal year-end dates and actuarial valuation (funding) methods. Also, not all have an actuarial valuation conducted every fiscal year. Therefore, the comparison between different states' systems cannot be considered "apples-to-apples."

Despite these obstacles, we can determine some general trends amongst the various state public retirement systems in the U.S. For example, the decline in Louisiana's four state retirement systems' funding ratios between fiscal years 2001 and 2004 mirrors that of a majority of other states' retirement systems in the U.S. A 2003 National Association of State Retirement Administrators' (NASRA) survey of 125 public retirement system plans in the U.S. found that the median funding level for 106 of the plans had fallen 8.2 percentage points from fiscal year 2001 to fiscal year 2003.

Also, a majority of state retirement systems in the U.S. are underfunded. A 2005 Wilshire Report on 64 state retirement systems reported that 77% or 49 of the systems were underfunded for fiscal year 2004. Again, this mirrors the situation of Louisiana's state retirement systems.

However, a comparison of Louisiana's four state retirement systems' funding ratios to those of other states' systems shows that all four of Louisiana's systems' funding ratios are lower than a majority of other systems surveyed. According to the 2003 Public Fund Survey by NASRA, the four Louisiana systems fell below the average (88.2%) and the median (91.5%) funding ratios for 117 state public retirement systems. (See Exhibit 1.)

Remember, because of the systems' differences, one cannot draw concrete conclusions from such comparisons. However, such comparisons may indicate general trends.

Factors That Have Impacted the Four Systems' UALs/Funding Ratios—

Various factors have negatively affected the UALs and funding ratios of Louisiana's four state retirement systems. Some factors are:

Increases/Decreases in Investment Returns. The four state retirement systems' primary source of funding is investment income. Any increases or decreases in this income stream greatly affect the individual system's funding status and UAL.

The four systems experienced significant investment returns during the 1990's through 2000. However, the positive funding impact felt by the systems was offset because of the market drop beginning in 2001.

- **TRSL's** total investment returns (net of fees) as of June 30, 2004, was 9.59% over a 10-year period, but only 4.22% over a five-year time period;
- **LASERS'** total investment returns (estimated net of fees) as of June 30, 2004, was 8.55% over a 10-year period, but only 3.75% over a five-year time period;
- **LSERS'** total investment returns (estimated net of fees) as of June 30, 2004, was 8.75% over a 10-year period, but only 3.78% over a five-year time period;
- **STPOL's** total investment returns (estimated net of fees) as of June 30, 2004, was 8.78% over a 10-year period, but only 3.52% over a five-year time period.

The actuarially assumed rate of return is the rate of return that the system's actuary assumes the system will earn when computing the funding ratio. The actuarially assumed rate of return for TRSL and LASERS is 8.25%. The actuarially assumed rate of return for LSERS and STPOL is 7.5%. If a system's investment performance exceeds this actuarially assumed rate, the funding ratio and UAL may be improved. A system with investment returns less than the actuarial assumed rate worsens its financial health, all other factors (such as benefits and contributions) remaining equal. All four of the state retirement systems' returns were well under their actuarially assumed rate of return over a five-year period as of June 30, 2004.

Elimination of Negative Experience Account Balances. The Experience Account for LASERS and TRSL was established in the 1992 Regular Session to provide for cost-of-living (COLA) benefits for retirees. The LASER Experience Account balance on June 30, 2003, was a negative \$634,512,981 and TRSL's Experience Account balance on June 30, 2003, was a negative \$1,088,630,751. Act 588 of the 2004 Regular Legislative Session eliminated any negative Experience Account balance existing on June 30, 2004, and added it to the unfunded accrued liability (UAL) balance of the respective system. The addition of these negative Experience Account balances accounted for a majority of the decrease in LASERS' and TRSL's funding ratios (and the increase to each system's UAL) between fiscal years 2003 and 2004.

Granting Additional Retirement Benefits. Increasing retirement pension benefits, through legislation, automatically boosts a pension system's liabilities and can increase their UALs (decrease their funding ratios). Examples of enhancements to retirement plans include increases

to pension benefit accrual rates, early retirement incentives, and full benefits for certain rehired retirees beginning 12 months after retirement.

Increases in Inactive (Retirees) Members Relative to Active Members. Overall, the number of inactive members (retirees and beneficiaries currently receiving benefits) has increased for the four systems. From fiscal years 2000 through 2005, the number of active members has decreased or remained relatively constant. Exhibit 6 shows the percentage changes in the number of inactive and active members for the four systems from fiscal years 2000 to 2005. Increases in the ratio of inactive members to active members increase the systems' liabilities, and can increase their UALs (and decrease their funding ratios).

| Exhibit 6 Change Between Inactive and Active Members FY 2000-FY 2005 | | | | |
|-------------------------------------------------------------------------------------------------|--------------|---------|---------|----------|
| System | Member Type* | FY 2000 | FY 2005 | % Change |
| LASERS | Inactive | 30,197 | 34,205 | 13.27% |
| | Active | 66,642 | 64,168 | -3.71% |
| LSERS | Inactive | 8,958 | 10,953 | 22.27% |
| | Active | 14,849 | 13,837 | -6.82% |
| TRSL | Inactive | 45,668 | 54,525 | 19.39% |
| | Active | 87,361 | 87,643 | 0.32% |
| STPOL | Inactive | 1,024 | 1,116 | 8.98% |
| | Active | 932 | 1,003 | 7.62% |

Source: Prepared by legislative auditor's staff from information obtained from LASERS, LSERS, TRSL, and STPOL FY 01 and FY 05 audited financial statements.

*OLA staff included only inactive and active member data. Other member categories, such as (1) terminated vested employees entitled to but not yet receiving benefits, (2) DROP participants, and (3) terminated, non-vested employees who have not withdrawn their contributions were not included in the data.

How Has Louisiana Been Addressing the UALs of the State Retirement Systems

Article X §29 of the Louisiana Constitution stipulates the following:

- The state will guarantee benefits payable to a member of a state retirement system or retiree or to his lawful beneficiary upon his death.
- The actuarial soundness of state systems shall be attained and maintained.
- The legislature will provide necessary funding to cover the employer portion of the normal cost in each fiscal year.
- The legislature will, in each fiscal year, provide for the amortization of the UAL existing as June 30, 1988, by the year 2029, commencing with fiscal year 1989-1990.

R.S. 11:42 provides for the amortization of the unfunded accrued liabilities of the public retirement systems. “Amortization” is defined as the elimination of a liability in regular payments over a specified period of time. The statute requires the following:

- **Louisiana School Employees’ Retirement System:** Beginning with FY 1990, the UAL as of June 30, 1988, will be amortized over a 40-year period, with level dollar payments annually.
- **Louisiana State Employees’ Retirement System:** Beginning with FY 1990, the UAL as of June 30, 1988, will be amortized over a 40-year period. The outstanding balance of the UAL as of July 1, 1992, will be amortized over the remaining 37-year period with payments forming an annuity increasing at 4½% annually.
- **State Police Pension and Retirement System:** Beginning with FY 1990, the UAL as of June 30, 1988, will be amortized over a 20-year period, with level dollar payments annually.
- **Teachers’ Retirement System of Louisiana:** Beginning with FY 1990, the UAL as of June 30, 1988, will be amortized over a 40-year period. The outstanding balance of the UAL as of July 1, 1992, will be amortized over the remaining 37-year period with payments forming an annuity increasing at 4½% annually.

Act 588 of the 2004 Legislative Session. Act 588 revised the amortization rules for three of the four state retirement systems. The changes to the amortization payment schedule provide immediate relief. Long-term, however, the amended schedule will add significant costs by increasing payments in future years, and thus further increasing the three systems’ liabilities.

Exhibits 7 through 9, taken from the Louisiana Legislative Actuary’s 2004 report, depict the immediate payment relief and subsequent long-term increases in future amortization payments that will occur as a result of Act 588. The tables show sample payment schedules for unfunded liabilities as of June 30, 2003, and compare the Act 588 payment schedule to the original payment schedule. The impact of Act 588 will result in additional payments of \$1.1 billion for LASERS, \$2.8 billion for TRSL, and \$270 million for LSERS.

| Exhibit 7 | | | | |
|------------------------------------|------------------|--------------------------------------------|-------------------|------------------|
| Impact of Act 588 on LASERS | | | | |
| (\$millions) | | | | |
| Fiscal Year | Years Out | LASERS Sample Amortization Payments | | |
| | | Act 588 | Original | Impact |
| 2004 | 1 | \$211.4 | \$211.4 | \$0.0 |
| 2010 | 7 | \$286.6 | \$306.9 | (\$20.3) |
| 2016 | 13 | \$390.3 | \$399.7 | (\$9.4) |
| 2022 | 19 | \$525.3 | \$520.5 | \$4.8 |
| 2029 | 26 | \$735.1 | \$708.3 | \$26.8 |
| 2030 | 27 | \$297.8 | \$3.7 | \$294.0 |
| 2034 | 31 | \$125.6 | \$0.0 | \$125.6 |
| 2035 | 32 | \$0.0 | \$0.0 | \$0.0 |
| Total Projection Period* | | \$12,325.1 | \$11,224.3 | \$1,100.8 |

Source: The 2004 Actuarial Report on Louisiana public retirement systems.
 * The table does not show the sample amortization payments for each individual year between 2004 and 2035; however, the "Total Projection Period" data are the sums of the sample amortization payments for all years between 2004 and 2035.

| Exhibit 8 | | | | |
|----------------------------------|------------------|------------------------------------------|-------------------|------------------|
| Impact of Act 588 on TRSL | | | | |
| (\$millions) | | | | |
| Fiscal Year | Years Out | TRSL Sample Amortization Payments | | |
| | | Act 588 | Original | Impact |
| 2004 | 1 | \$307.1 | \$307.1 | \$0.0 |
| 2010 | 7 | \$460.5 | \$522.3 | (\$61.8) |
| 2016 | 13 | \$673.0 | \$680.1 | (\$7.2) |
| 2022 | 19 | \$949.6 | \$885.7 | \$63.9 |
| 2029 | 26 | \$1,379.8 | \$1,205.4 | \$174.4 |
| 2030 | 27 | \$509.7 | (\$45.7) | \$555.4 |
| 2034 | 31 | \$215.4 | \$0.0 | \$215.4 |
| 2035 | 32 | \$0.0 | \$0.0 | \$0.0 |
| Total Projection Period* | | \$21,553.7 | \$18,755.6 | \$2,798.1 |

Source: The 2004 Actuarial Report on Louisiana public retirement systems.
 * The table does not show the sample amortization payments for each individual year between 2004 and 2035; however, the "Total Projection Period" data is the sums of the sample amortization payments for all years between 2004 and 2035.

| Exhibit 9 | | | | |
|-----------------------------------|------------------|-------------------------------------------|------------------|----------------|
| Impact of Act 588 on LSERS | | | | |
| (\$millions) | | | | |
| Fiscal Year | Years Out | LSERS Sample Amortization Payments | | |
| | | Act 588 | Original | Impact |
| 2004 | 1 | \$19.6 | \$19.6 | \$0.0 |
| 2010 | 7 | \$18.4 | \$25.5 | (\$7.1) |
| 2016 | 13 | \$31.4 | \$33.2 | (\$1.8) |
| 2022 | 19 | \$48.4 | \$43.3 | \$5.1 |
| 2029 | 26 | \$74.8 | \$58.9 | \$15.9 |
| 2030 | 27 | \$104.0 | \$14.7 | \$89.3 |
| 2034 | 31 | \$0.0 | \$0.0 | \$0.0 |
| 2035 | 32 | \$0.0 | \$0.0 | \$0.0 |
| Total Projection Period* | | \$1,283.6 | \$1,013.4 | \$270.2 |

Source: The 2004 Actuarial Report on Louisiana public retirement systems.
 * The table does not show the sample amortization payments for each individual year between 2004 and 2035; however, the "Total Projection Period" data are the sums of the sample amortization payments for all years between 2004 and 2035.

Recent Legislative Efforts to Address the UAL Issue_____

Act 75 of the 2005 Legislative Session. Act 75 modifies the defined benefit plan for future members of LASERS, hired on or after July 1, 2006, in five areas, as shown in Exhibit 10. This Act is intended to enhance the state systems’ fiscal health.

| Exhibit 10 | | |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Act 75: Changes Made to Existing Law | | |
| Area | New Law | Existing Law |
| Retirement Eligibility | New members must have at least 10 years of service and reach age 60 for normal retirement | Addition to existing law |
| Average Compensation | (a) Compensation average used to calculate retirement benefits amounts is an annual average of the highest 60 successive months (five years) of employment. (b) Changes earnings limit on annual compensation to 15% and extends it to the additional 24-month period. | (a) Compensation average is based on the highest 36 successive months (three years). (b) Earnings limit on annual compensation was 25%. |
| Disability Benefits | New members eligible for disability retirement benefits will receive 1.8% of average compensation for each year of credited service. After age 60, members receive normal retirement. | LASERS members shall receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age. |
| Service Purchase | (a) For all members, five years of service is required to purchase up to five years of additional service credit. (b) The credit applies only to benefit accrual and not for retirement eligibility. (c) Current members may purchase under prior rules if done so by July 1, 2005, and the purchase is complete by June 30, 2006. | Any member with one year of service was able to obtain credit for up to five years of service and the credit counted for retirement eligibility. |
| Employee Contribution Rate | New members will contribute 8.0% of pay. | Members hired prior to June 30, 2006, contribute 7.5% of pay. |
| Source: Prepared by legislative auditor’s staff using information found on the Louisiana Legislature’s Web site. | | |

Possible Impacts of Hurricanes on the State Retirement Systems _____

At this time, the overall impact of hurricanes Katrina and Rita on the financial health of the retirement systems is not known. According to retirement officials, we will not know the true impact of the hurricanes for three to five years. We can assume that as a result of the two disasters the state systems will lose members, although the exact numbers may not be known for awhile.

Possible impacts hurricanes Katrina and Rita may have on the state retirement systems include the following:

- Decreases in active members and subsequent decreases in contributions
- Increases in retired or inactive members and subsequent increases in benefit payments
- Increases in requests for refunds of contributions from ex-members which do not necessarily have a negative (financial) impact on a system

As stated earlier, many factors determine whether the UALs of the retirement systems will increase or decrease. Decreases in contributions, increases in benefit payments, and other impacts that may result from the hurricanes can increase liabilities and negatively impact the UALs of the systems. However, other factors may offset any increases in liabilities resulting from the two disasters, and ultimately hurricanes Katrina and Rita may not greatly impact the systems' UALs. For these reasons, we cannot predict the long-term impact of the two hurricanes on the state systems' UALs.

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Need more information?

Contact Steve J. Theriot, Louisiana Legislative Auditor
at (225) 339-3800.

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