

Louisiana Retired Teachers Association

*Answering Essential Questions
Regarding Retirement Issues*

Understanding the Retirement Dilemma

- The entire nation is re-examining retirement plans
- No retirement plan was perfect from its inception
- Business and government constantly examine retirement plans to provide adequate benefits for retirees and at the same time,
- Control employer costs that provide for a stable and viable system.
- Our task is to help legislators and stakeholders understand how this can be accomplished using our current retirement plan.

Framing the Issues

- Expectation is that we will collect our guaranteed benefit for the duration of our lives
- Expectation is that we will expect a Cost of Living Adjustment (COLAs) as inflation diminishes the buying power of our benefit
- Expectation is that legislators will protect our current retirement plan and make adjustments for COLAs as necessary

Translating the Issues into Essential Questions

- How do we provide the best education for the children of our state?
- How do we defend our retirement plan when we don't understand the current plan or the proposed changes that come through our Legislature annually?
- Why do legislators want to change our current plan and how can we convince them to retain our current benefit structure?
- What additional resources can LRTA provide as we actively engage legislators and stakeholders in discussions regarding the defense of our retirement plan?
- How do we as active employees and retirees become 'activists' in protecting our current retirement plan by communicating positive information to our legislators that our system works?

How Do We Provide the Best Education for the Children of our State?

- Research proves that the classroom teacher is the single most important factor in the successful education of public school students
- Attracting the best teachers is difficult because research shows they are paid 17% less than their counterparts with similar degrees and experience in the private sector
- A guaranteed retirement: A Defined Benefit plan is one of the best ways to attract the highest quality individuals into education
- Many teacher preparation programs are able to advise students into education because our current retirement plan provides a guaranteed benefit

How Do We Defend Our Retirement Plan When We Don't Understand the Current Plan or the Proposed Changes that Come Through Our Legislature Annually?

- Currently TRSL: Defined Benefit (DB) Plan
- A plan where a monthly benefit, payable at a certain age, is 'defined' in the plan
- A traditional pension with predetermined monthly annuity payments
- Payable until death

Fundamental Equation of Pension Plan Financing

$$C + I = B + E$$



This is the basic equation for both a Defined Benefit (DB) Plan and a Defined Contribution (DC) Plan

Fundamental Equation of Pension Plan Financing

$$C + I = B + E$$

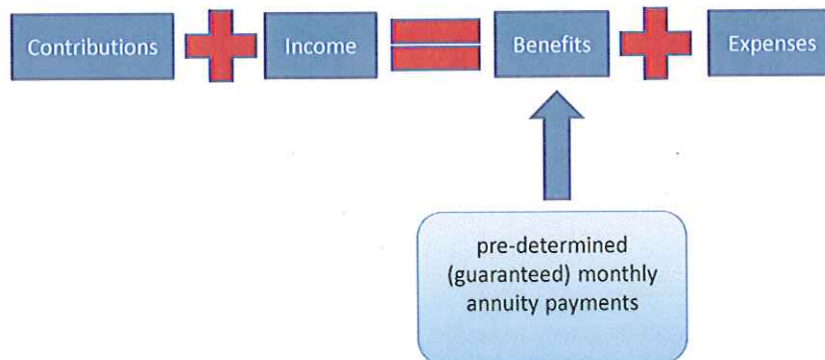


Employer and Employees 'contribute' to a fund in regular intervals. The fund invests these contributions and earns a return on the investment which is considered 'Income'.

Retirement plan pays 'Benefits' to members. It also pays 'Expenses' for maintaining the plan: administrative, investment, auditing, debt, etc.

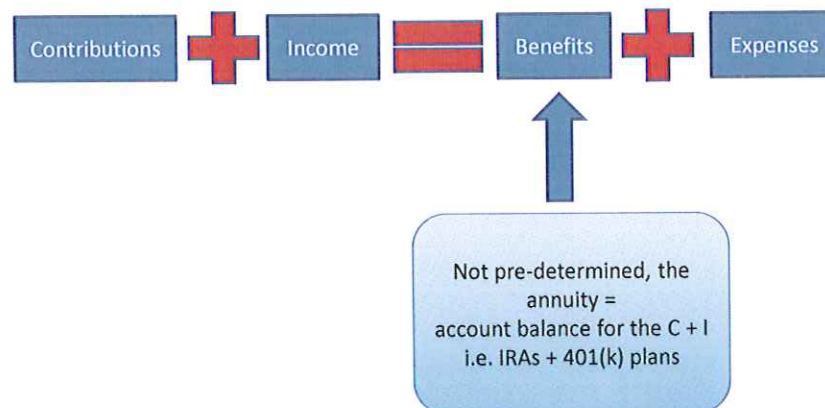
Fundamental Equation of Pension Plan Financing

Defined Benefit



Fundamental Equation of Pension Plan Financing

Defined Contribution



Fundamental Equation of Pension Plan Financing

Why do we want to retain a DB plan over a DC plan?

$$C + I = B + E$$

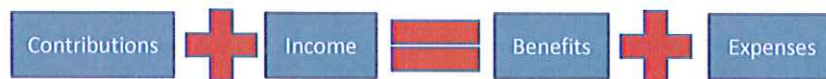


Defined Benefit (DB): **larger** annuity because assets are pooled over time resulting in greater investment income

Defined Contribution (DC): **smaller** annuity because assets are held in individual investment accounts resulting in less income

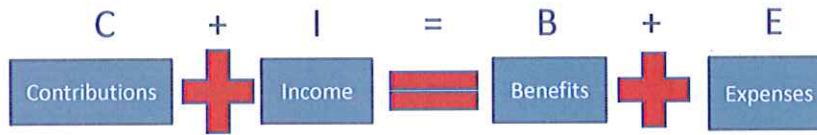
Fundamental Equation of Pension Plan Financing

$$C + I = B + E$$



- If $C + I$ is greater than $B + E$, then the system is **overfunded**
- If $C + I$ is less than $B + E$, then the system is **underfunded**

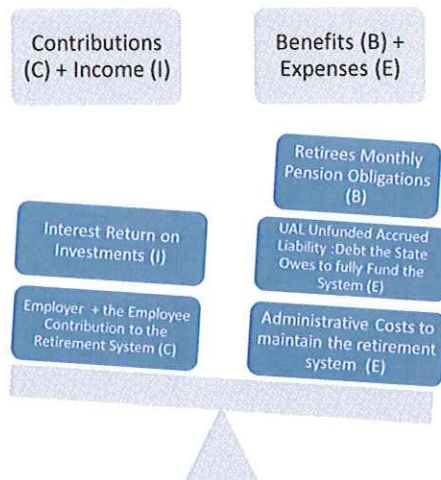
Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?



- If B is predetermined and the C + I doesn't meet it's obligations, then the system is **underfunded**
- Also, if the E is greater than expected, then the system is **underfunded** (i.e. amount of debt—UAL, administrative costs, etc.)
- That means the system must **increase** the C + I, through more contributions from the employer and more interest earnings from the Income Accounts
- Using this equation, where are we currently, and why do legislators want to change our plan?

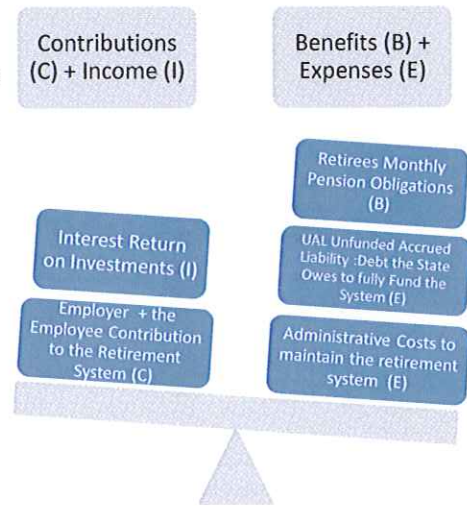
Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

- Currently, the benefits and expenses **outweigh** the contributions and the income
- Our System is only **60.9 %** funded
- If everyone retired today, **only 60.9 %** would receive lifetime benefits!



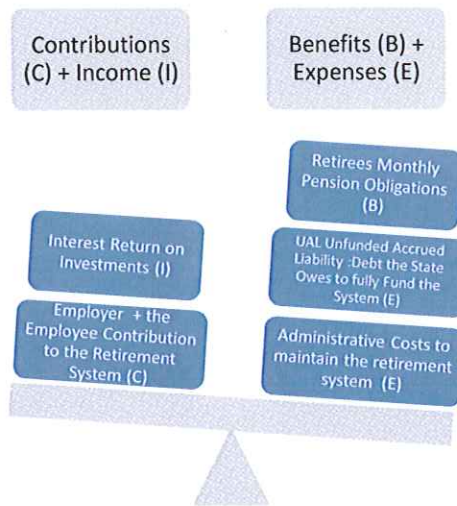
Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

- The scale is tipped due to a large debt referred to as the **UAL** (Unfunded Accrued Liability)
- The UAL is \$11.1 Billion
- Legislators have concerns that the investment income will not produce enough funding to balance the B + E
- Therefore, they continue to **increase** the Employer Contribution rate



Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

- Currently, the employee contribution rate is **8%**
- The employer contribution rate is **25.4%**
- This is extremely high due to the UAL; however,
- If the **C** (employer share) and the **E** (UAL) are so high, then why do we want to defend an underfunded system?
- Particularly, when the Legislature is looking for ways to...



Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

- Deal with volatility of the stock market and tough economic times
- Balance the state budget
- Provide stability and predictability of employer costs in the retirement system!



TRSL Asset/Liability Study



Normal Cost: The cost to fund a working member’s future benefit.

UAL Payment: The shared cost all employers pay to amortize past debt.

Total Employer Payment: Percentage of payroll.

Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

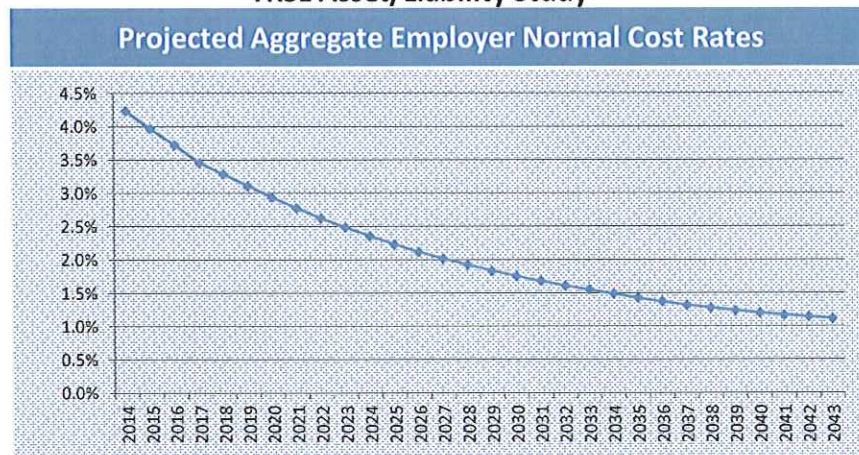
Valuation Report

- Employers will contribute \$20 million **less** in FY 2017, and contributed \$46 million **less** in FY 2016.
- FY 2017 employer contribution rate:
 - Down 0.80% for K-12 employers
 - Down 0.90% for higher education employers

EMPLOYER CONTRIBUTION RATES			
	FY 2017 <i>(projected)</i>	FY 2016 <i>(current)</i>	FY 2015
Aggregate Rate	25.4%	26.2%	27.7%

Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

TRSL Asset/Liability Study



Aggregate employer normal cost is expected to **reduce** from 4.2% of pay in 2014 to 1.1% by 2043 as new members replace current members, thereby shifting membership into less costly plans.

Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

Valuation Report

ASSETS & RETURNS			
	FY 2015	FY 2014	FY 2013
Net assets	\$17.9 bln.	\$17.9 bln.	\$15.5 bln.
Investment return <i>(gross of fees)</i>	3.11%	19.9%	13.88%
Actuarial return	11.26%	13.14%	13.41%
DROP interest rate <i>(eligible before Jan. 1, 2004)</i>	10.76%	12.64%	12.91%
DROP interest rate <i>(eligible on/after Jan. 1, 2004)</i>	0.00%	0.00%	0.00%
30-year avg. actuarial return	8.60%	8.60%	8.54%

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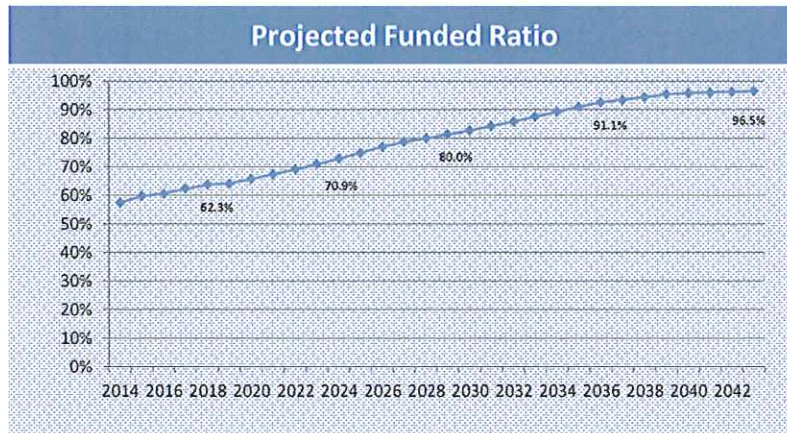
Valuation Report

- There was a **\$785 million decrease** in the unfunded accrued liability (UAL).

UAL & FUNDED RATIO			
	FY 2015	FY 2014	FY 2013
UAL balance <i>(in billions)</i>	\$11.189	\$11.974	\$11.348
Funded ratio	60.9%	57.4%	56.4%

Why Do Legislators Want to Change Our Current Plan and How Can We Convince Them to Retain Our Current Benefit Structure?

TRSL Asset/Liability Study



The funded ratio is projected to **increase** annually, approaching 100% as the UAL is paid off.

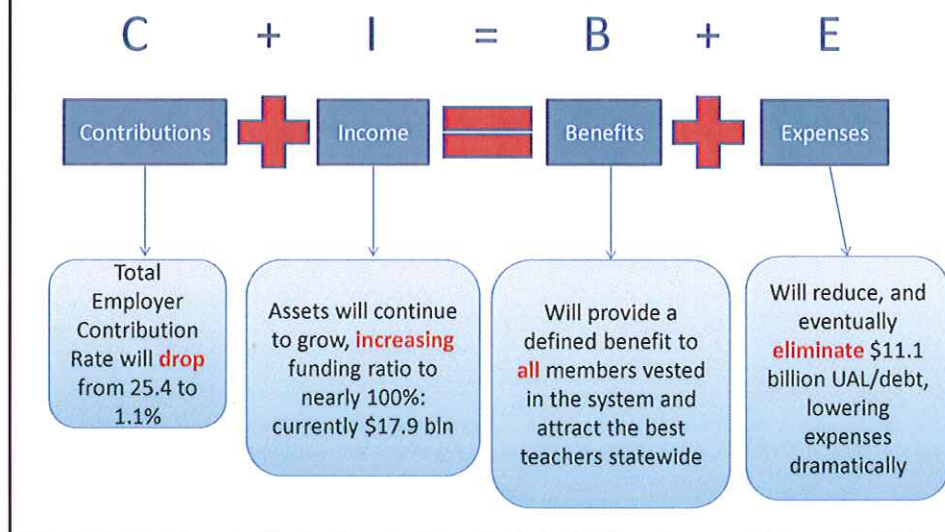
What Additional Resources Can LRTA Provide as I Actively Engage Legislators and Stakeholders in Discussions Regarding the Defense of Our Retirement Plan?

- *Articles:*
 - *Public pension shocker:* Shutting a pension plan actually costs taxpayers money
- Posted: 26 Aug 2015 10:51 AM PDT Original source: Los Angeles Times
- *Lessons from Alaska:* The switch to a defined contributions plans continues the acrimony and financial pain

Pensionomics: <http://www.texpers.org/blog>

How Do We as Active Employees and Retirees Become 'Activists' in Protecting Our Current Retirement Plan by Communicating Positive Information to Our Legislators that our System Works?

What our system will look like in 2042



How Do We as Active Employees and Retirees Become 'Activists' in Protecting Our Current Retirement Plan by Communicating Positive Information to Our Legislators that our System Works?

Asset/Liability Study

IN SUMMARY:

- The retirement equation $C + I = B + E$ will be balanced, because
- Employer normal cost projected to steadily decrease due to shifting membership to less costly plans.
- The **UAL balance is coming down**. Payments are level. Debt expected to be retired earlier than required.
- TRSL's **funded ratio is projected to increase** each year approaching 100% as UAL is paid off.
- Louisiana legislative actuary agreed with methodology of the asset/liability study.
- Legislative actuary conducted his own study and arrived at similar conclusions, fall 2015

* Public Retirement Systems Actuarial Committee (PRSAC) approved a motion to study legislative actuary's alternate recommendations and bring their findings to the Committee by the end of the 2016 Legislative Session. (Jan 21, 2016)

How Do We as Active Employees and Retirees Become 'Activists' in Protecting Our Current Retirement Plan by Communicating Positive Information to Our Legislators that our System Works?

- Join LTRA as a regular or associate member: www.lrta.net
- Join the LRTA email club
- Actively respond and engage legislators on matters important to us as current and future retirees
- We will provide you with contact information, updates, language, and written information to use when speaking to stakeholders and state decision makers
- Let's work together to protect the retirement benefits for current and future generations, so that Louisiana can attract the best and brightest educators!