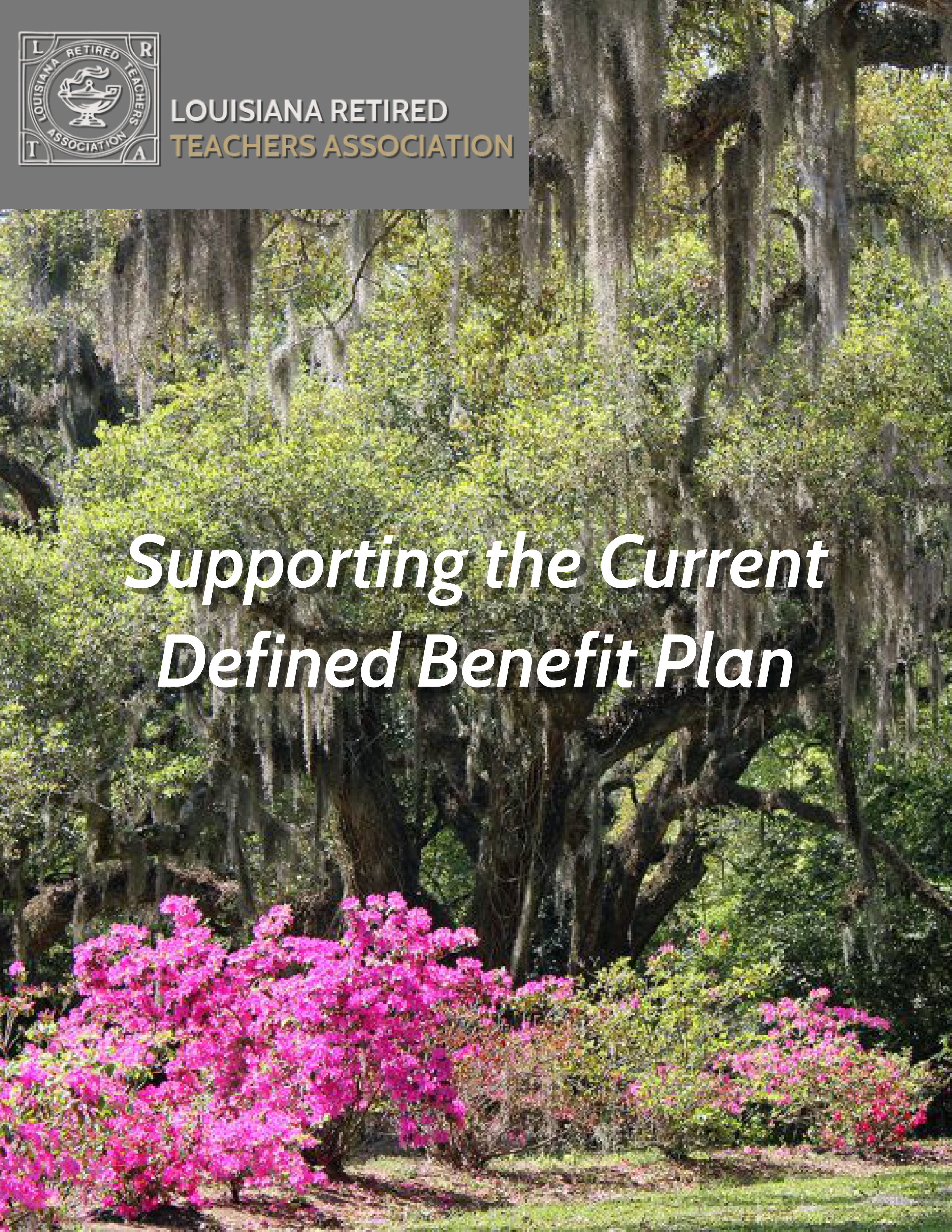
LOUISIANA RETIRED
TEACHERS ASSOCIATION



Supporting the Current Defined Benefit Plan

What is a Defined Benefit Plan?

A Defined Benefit (DB) retirement plan, or pension, uses a predetermined formula to calculate the amount of the employee's retirement benefit. Both the employer and employee contribute to the plan.

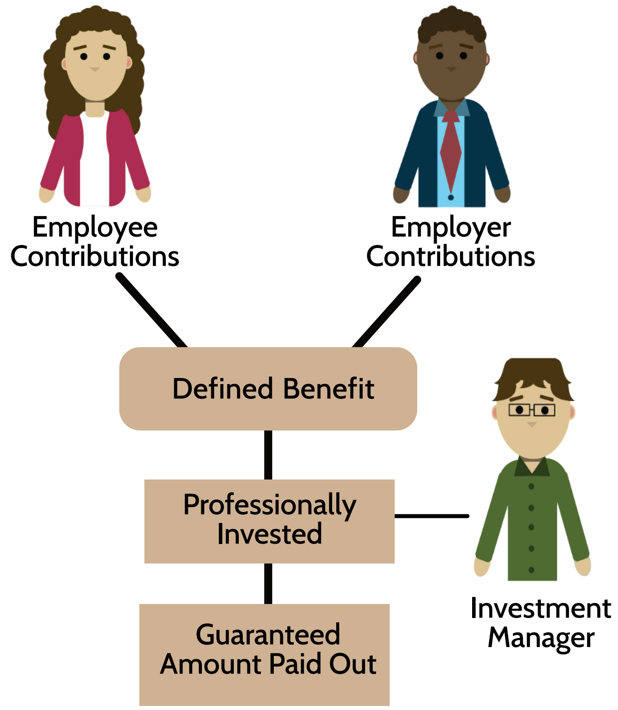
Throughout their careers, teachers and their employers (school boards) contributed to a pension plan administered by The Teachers' Retirement System of Louisiana (TRSL). TRSL pooled all employee and employer contributions together and professional asset managers invested the money (see Figure 1). These contributions and the interest earned on TRSL investments pay for future retirement benefits.

When the teacher retired, TRSL applied a formula based on their years of service and final average compensation and a benefit factor (a percentage used to calculate the retirement benefit) to determine the monthly benefit amount.

Retired teachers receive a guaranteed amount based on this formula every month for the remainder of their lives, as guaranteed by the state constitution, per Article X, Section 29 (A).

Pension contributions are pooled together and specifically invested for the long-term, meaning pensions can overcome the ups and downs of the market. The volatility of the stock market does not directly affect the benefit amount a retired teacher would receive in the future.

Figure 1. Defined Benefit Plan



Why Does LRTA Support It?

LRTA supports the current DB plan offered by TRSL. Pensions provide a modest yet reliable retirement income. Because of the reliability a pension provides, studies have found beneficiaries are able to significantly contribute to their local and state economies. The National Institute on Retirement Security (NIRS) reported, for Louisiana, each dollar paid out in pension benefits supported $1.42 in total economic activity in 2018.

The majority of money used to pay for benefits come from investment earnings and employee contributions. Taxpayer contributions are a small source of financing for retirement benefits. Still, NIRS found that each dollar in taxpayer contributions to Louisiana's state and local pension plans supported $4.09 in total output in the state in 2018.

Research shows that, not only do DB plans provide adequate benefits to retirees, pensions serve as an excellent recruitment and retention tool. NIRS released a study in November 2019 showing nearly 96 percent of active teachers say pensions help recruit and retain qualified employees (Bond and Kenneally, 2019). The study showed that teachers highly favor their pensions, but changes to their retirement plans or benefits could cause them to leave.

What About the UAL or Debt?

Since it was created in 1936, TRSL has had an unfunded accrued liability (UAL or debt). Over the years, benefits promised were not fully funded mainly because there was no requirement that the employer contributions needed to properly fund these benefits had to be paid.

In 1987, Louisiana voters passed a constitutional amendment requiring the System to be properly funded and pay off the debt accrued as of 1988.

Since the 1987 constitutional amendment, more than a dozen pension reforms have been passed - all designed to maintain the financial health of the system and ensure its sustainability over the long-term. These reforms are projected to have a long-term savings of $5 billion for the state.

Due to our current pension reforms, the new debt is eliminated annually through the investment returns. The Initial Unfunded Accrued Liability (IUAL) of the retirement system will be paid off by 2027. In 2019, TRSL sent $200 million toward paying off the UAL.

Our Current Pension Reforms

Since 2009, the state has enacted significant pension reform, including:

- Restructuring the UAL payment plan to make payments more level and steer more of the retirement system's excess investment earnings toward reducing the UAL. Almost $1 billion in excess earnings have been directed to the UAL.
- Dedicating additional excess investment returns to the UAL.
- Raising the retirement eligibility age to 62 for individuals hired on or after July 1, 2015.
- Adopting a method to project long-term funding needs that allows for greater budget stability.

Due to our current reforms, the UAL debt of the retirement system will be paid off by 2027. The expected long-term reduction in costs from these and other legislative reforms is $5 billion.

Research Cited

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