Becoming Your Best Advocate:
Understanding the Issues that Impact Retired Teachers

Louisiana's retired teachers devoted their careers to serving the children and state of Louisiana. Their retirement benefits are hard earned and well deserved.

This is why it is important to understand the legislative issues that could impact the retirement benefits of retired teachers. Oftentimes, there is legislation filed at the state level that could result in reduced or lost benefits to retirees or damage to the trust of the retirement system. In addition, there are some federal provisions in place that unfairly penalize retired public servants (of which, LRTA is working to repeal). Understanding the issues is key for effective advocacy.

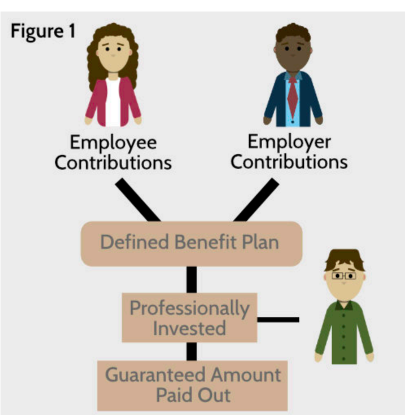
State Issues

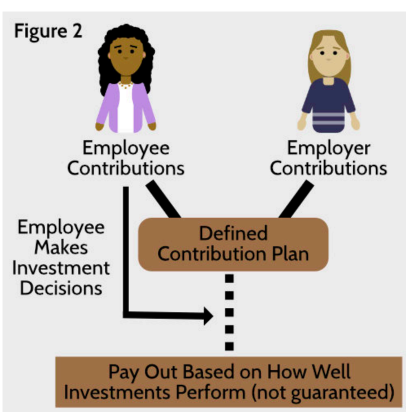
Protecting the Current Defined Benefit plan and retirement system structure

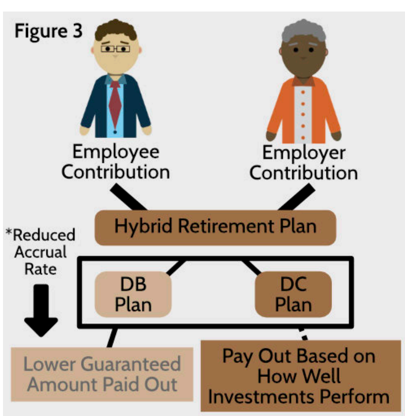
A Defined Benefit (DB) retirement plan, or pension, uses a predetermined formula to calculate the amount of the employee's retirement benefit. Research shows DB plans are an effective recruitment and retention tool for employers as pensions provide a modest yet reliable retirement income.

For many years, state legislators have cited costs and the Unfunded Accrued Liability (UAL), or debt, as reasons to switch from the current DB plan. The authors of the bills stated Defined Contribution (DC) and/or hybrid plans would reduce the financial risk of the retirement system. However, several studies have shown that switching retirement plans are actually costly to retirement systems and increases the debt. Switching to a different retirement plan will not reduce the current obligation currently owed to the state's retirement systems. Plus, switching plans could affect employer and employee contributions to the retirement system, which could lead to less money being available to go toward paying down the debt, the Experience Account, etc. Changing the current DB plan compromises the financial trust and could result in reduced or lost benefits to retirees statewide.

There is no DC or hybrid plan currently implemented that provides benefits greater than or equal to the current DB plan or Social Security benefits (note: teachers in Louisiana do not pay into Social Security). Even during times of turbulent stock markets, the retirement system has remained stable. LRTA continues to advocate to protect and maintain the current DB plan as well as preserve the financial trust of the retirement system.







Cost-of-living Adjustments (COLAs)

Cost-of-living adjustments, or COLAs, are granted on an ad hoc basis for Louisiana's retired teachers. If the retirement system meets certain requirements AND there is enough money in the Experience Account (an account designed solely to hold funds for COLAs) AND the Louisiana legislatures approves the retirement system granting a COLA, then eligible retired teachers may receive an adjustment in benefits (also known as a permanent benefit increase). The amount of the increase is tied to the funded status of the retirement system and is set by state law. Eligible retired teachers received a two percent COLA in 2022.

Currently, the Experience Account is funded solely through excess investment earnings realized by the retirement system AFTER it has paid all obligations and debt. Even if funds are available and all other requirements are met, the Louisiana legislature still must approve granting the COLA. This is one of many reasons why it is important that Louisiana's retired teachers have a strong voice at the state Capitol. Not only to advocate for the hard-earned benefits of retired teachers, but also to advocate for reforms that would allow for regular, stable COLAs retirees can rely on into the future.

Investments

Along with employer and employee contributions, the current defined benefit plan is funded through investment earnings. The Teachers' Retirement System of Louisiana (TRSL) invests portions of the employer and employee contributions and use the investment earnings (along with the employee and employer contributions) to fund retirement benefits. According to a report published by the National Institute on Retirement Security (Pensionomics 2023), nearly 49 percent of Louisiana's pension fund receipts came from investment earnings.

The retirement system relies on its board of trustees to make fiduciary decisions that will generate reasonable returns while minimizing risk. By definition, these individuals must act in the sole interest of the beneficiary or member. This means that other considerations, no matter how laudable or important, must not impinge on the investment decision process. Restricting the retirement system's ability to invest in certain companies and make fiduciary decisions could negatively affect the system's revenue stream and funding.

Constitutional Conventions

Since 1973, per Article X, Section 29 (A), the Louisiana Constitution has guaranteed lifetime retirement benefits to state retirees. A constitutional amendment or convention has the potential to remove this guarantee. Therefore, the state would no longer be required to pay retired teachers pensions (that they EARNED).

Federal Issues

Government Pension Offset (GPO) and Windfall Elimination Provision (WEP)

The Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) are Social Security provisions which impact individuals who have chosen to serve their school boards, towns, cities, counties and states in public jobs. These provisions reduce retired public employee's individual Social Security and survivor benefits. The GPO eliminates or reduces the spousal benefit by an amount that is determined using a formula which factors in the amount of a teacher's retirement benefit. This reduction occurs whether the Social Security receiving spouse is alive, deceased, or divorced. Remember, the GPO only impacts those individuals who were not eligible to retire prior to December 31, 1982 (at least age 55 and twenty years of credible service).

The WEP uses a modified formula that may reduce your earned Social Security benefit. The modified formula applies to you when you attain age 62 or if you become disabled after 1985 and first become eligible after 1985 for a monthly pension based in whole or in part on work where you did not pay Social Security taxes.

The GPO and WEP affect public employees in states that do not participate in the Social Security system. These Social Security benefit reductions affect public employees in virtually every state; however, those states with the greatest impact, in addition to Louisiana, are Alaska, California, Colorado, Connecticut, Illinois, Kentucky, Maine, Massachusetts, Missouri, Nevada, New Mexico, Ohio, Rhode Island, and Texas.

LRTA continues to support any and all repeal of the GPO and WEP.

Research

Pensionomics 2023 | Measuring the Economic Impact of DB Pension Expenditures - Dan Doonan, Ilana Boivie; NIRS

- https://www.nirsonline.org/reports/pensionomics2023/

State and Local Employees Views on Their Jobs, Pay and Benefits - Kelly Kenneally, Tyler Bond; NIRS

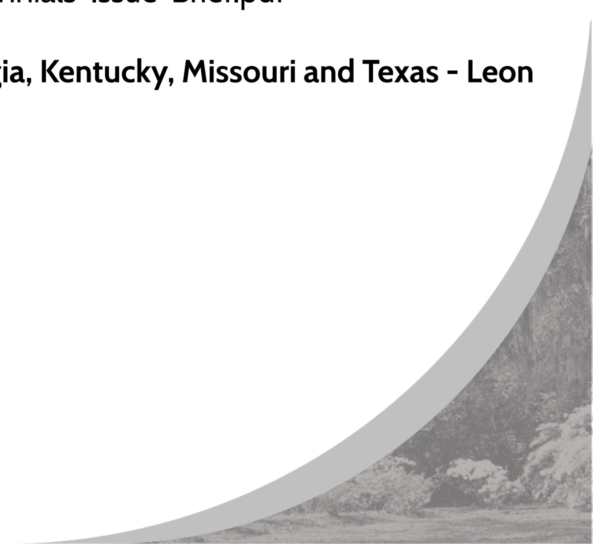
- Full Report: https://www.nirsonline.org/wp-content/uploads/2019/11/NIRS_OR_PublicEmployee2019_FINAL-1.pdf
- Specific to Teachers: https://www.nirsonline.org/wp-content/uploads/2019/11/Teacher_FactSheet_FINAL.pdf

Millennial State & Local Government Employee Views on Their Jobs, Compensation & Retirement - Kelly Kenneally, Tyler Bond; NIRS

- https://www.nirsonline.org/wp-content/uploads/2020/02/Final-Millennials-Issue-Brief.pdf

Teacher Pensions vs. 401(k)s in Six States: Colorado, Connecticut, Georgia, Kentucky, Missouri and Texas - Leon (Rocky) Joyner, Nari Rhee; NIRS

- https://www.nirsonline.org/reports/teacher-pensions-vs-401k/



PROTECTING PURCHASING POWER

WHAT WE'RE DOING NOW

Permanent benefit increases (PBIs) help reduce the impact of inflation on TRSL retirement benefits. However, PBIs can only be granted when there is enough money to pay for them, and with legislative approval.

HOW PBIs ARE FUNDED

PBIs are funded through a gain-sharing arrangement where a portion of the System's excess investment earnings are used for benefit increases.

Over the long-term, TRSL expects to earn an actuarial return of 7.25% to fund regular, monthly benefits; returns over 7.25% are considered excess earnings.

One-half of excess earnings over a statutorily determined dollar amount (hurdle) are deposited into the PBI Experience Account—an account that holds funds solely to pay PBIs.

Because of the current funding model, in any given year, there's no guarantee when or if any deposits will be made to the Experience Account.

HOW THIS IMPACTS RETIREES

Under current law, the ability to put money in the Experience Account is completely tied to market performance, which is unpredictable. As a result, it is difficult to determine when a PBI will be paid. In 2022, TRSL retirees received a 2.0% PBI for the first time in six years.

Legislators have recognized this and have been working with TRSL and other state retirement systems to find a new funding model that will allow for more regular benefit increases to help preserve the purchasing power of state pension dollars.

MORE ABOUT THE STATUTORY HURDLE

The first $200 million of excess earnings must be applied to long-standing retirement debt, generally referred to as the unfunded accrued liability (UAL). The $200 million amount increases as TRSL's actuarial value of assets increases. As of FY 2022, this amount is $298.3 million. Excess earnings are those earnings over the statutory hurdle.

A NEW APPROACH

Under the proposal, the gain-sharing funding model would end, and employers would directly fund PBIs. Essentially, funding would become a part of the annual employer contribution rate, and deposited into a new PBI funding account.

Contributions employers pay toward regular, monthly benefits have been declining in recent years, and are projected to continue to fall as the unfunded accrued liability (UAL) is paid off. Capturing a portion of these decreases to fund PBIs is a clear and transparent method that will likely allow for PBIs to be granted on a more regular basis.

Starting in 2024, deposits to the PBI funding account would equal one-half of the decrease in the total employer contribution rate, growing over time until PBI deposits reach 2.5% of payroll. As a cost protection measure for employers, PBI deposits could not exceed 2.5%, and the total employer contribution rate would be capped.

ACHIEVABLE GOALS

- **Predictable:** New funding source is expected to allow for a 2% PBI every two to three years.
- **Manageable:** As employer retirement costs decrease, implementation of the proposed funding model, with built-in employer safeguards, provides a workable framework for PBI funding.
- **Straightforward:** Proposed funding design means clarity for retirees, employers, and legislators about payment of future PBIs and their cost.

FAQS

Answers to questions about the proposed PBI funding model

Will PBIs be automatic?

No, PBIs would not be an automatic benefit. They would only be granted when there are enough funds in the PBI funding account to pay for them.

Additionally, granting a PBI will still require two-thirds legislative approval, and they can be vetoed by the governor.

What happens to the current PBI Experience Account and the money in it?

Initially, the Experience Account and the new PBI funding account will exist side by side. The Experience Account would be phased out with any remaining balance transferred to the new PBI funding account.

Will eligibility criteria for a PBI change under the proposed model?

Yes, but not right away. When the first PBI is paid from the new PBI funding account, eligibility criteria for age and years retired would go up.

Regular retirees would need to be age 62 and retired two years to receive a PBI. **Disability retirees** would need to be retired at least two years regardless of age.

PBI eligibility also extends to **beneficiaries of retirees** that would have met the above criteria, if alive; and **survivors of non-retired members** who have received a benefit for at least two years and whose benefit was derived from the service of a deceased member who would have been age 62.

How much will PBIs be?

PBIs will be limited to 2% of the first $60,000 of the retirement benefit.

Can a PBI over 2% be granted?

While it is expected that PBIs could be paid every two to three years, the most the TRSL Board of Trustees could recommend would be a 2% PBI, subject to available funds.

However, through legislative enactment, lawmakers could choose to authorize a PBI in excess of 2%, subject to gubernatorial approval.

Will the proposed funding model add new debt to the system?

No, it will not. No new debt will be added to the system under the proposed model.

As with the current gain-sharing model, PBI funding under the proposed model is distinct from funding regular, monthly benefits earned over the course of an employee's career. Funds for the actuarial cost of PBIs must be available before the legislature can grant a PBI—that will not change with the proposed model.

Will money be deposited in the new PBI funding account every year, and will there be a limit on how much can be deposited in the account?

Deposits to the PBI funding account would occur every year, unless one of the employer safeguards prevents a deposit. Safeguards include reducing or foregoing a PBI deposit if it would cause the total employer contribution rate to exceed the established cap, and limiting the PBI funding account balance to the cost of paying two PBIs.

Under the proposal, when can the new PBI funding account be debited (money paid out of the account)?

The ability to debit the PBI funding account would be the same as with the current Experience Account—for investment losses and payment of a PBI. Also, just like the Experience Account, the funding account could not fall below zero.