LOUISIANA STATE SENATE

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JOINT COMMITTEE ON RETIREMENT
SENATE COMMITTEE ON RETIREMENT & HOUSE COMMITTEE ON RETIREMENT

UNAPPROVED

MINUTES
DECEMBER 17 2020
ROOM 1

I. CALL TO ORDER

A meeting of the Joint Senate and House Committee on Retirement was held on Thursday, December 17, 2020 in Committee Room 1 at the State Capitol in Baton Rouge, Louisiana. The chairman, Senator Edward J. "Ed" Price called the meeting to order at 3:03 PM.

II. ROLL CALL

The secretary called the roll and the following was noted:

SENATE & HOUSE MEMBERS – PRESENT

Senator/Chairman Ed Price	Representative/Chairman Lance Harris
Senator/Vice Chairman Robert Mills	Representative Daryl Adams
Senator Beth Mizell	Representative Tony Bacala
Senator Barrow Peacock	Representative Julie Emerson
Senator Kirk Talbot	Representative John Illg
	Representative Barry Ivey
	Representative Richard Nelson
	Representative Phillip Tarver

SENATE & HOUSE MEMBERS – ABSENT

Senator Cleo Fields	Representative/Vice Chairman Gerald Beaullieu
Senator Bob Hensgens	Representative Michael Firment
	Representative Aimee Freeman
	Representative Paul Hollis
	Representative Patrick Jefferson
	Representative Tanner McGee
	Representative/Speaker Clay Schexnayder

III. REPORTS RECEIVED FROM THE FOLLOWING 2020 REGULAR SESSION RELATIVE TO THE SENATE AND HOUSE RESOLUTIONS.

SENATE RESOLUTION NO. 15 BY SENATOR PRICE
Urges and requests the state retirement systems to provide information to the legislature regarding permanent benefit increases for retirees.

HOUSE RESOLUTION NO. 21 BY REPRESENTATIVE LANCE HARRIS
Requests the state retirement systems to provide information to the legislature regarding permanent benefit increases for retirees.

Chairman Price mentions the above resolutions confirming the state retirement systems were charged with developing ideas to increase benefits to retirees. He added no problems will be solved during this meeting, but the presentation should provide an initial guide of possibilities.

Chairman Price introduces Katherine Whitney, Director from TRSL (Teachers) and Cindy Rougeau, Executive Director from LASERS (State Employees) to present the report on behalf of the four state retirement systems, in addition to LSPRS (State Police) and LSERS (School Employees). The following notes were cited and/or discussed:

Given Louisiana's budgetary structure, legislators may wish to review these possibilities.

Approximately 10 years ago, Louisiana state law changed terminology. For the purpose of this report, PBI/COLA: the term "cost of living and adjustment"(COLA) is widely used among policymakers, and a "permanent benefit increase" (PBI) are used interchangeably.

In this report, some topics are generalized given the differences between the four state retirement, which also includes the exact time when certain items became effective. Today, the four systems have similar structure. This report provides an overview, Louisiana's history at a glance and alternative PBI Funding options.

The purpose of a PBI is to protect the purchasing power of a retirement benefit from inflation. At the time a retiree retires, most expenses are covered. However, over time if that benefit does not keep up with inflation, the benefit value decreases. The National Association of State Retirement Administrators is relied upon for its volume of information. One of the charts shows how inflation can erode the purchasing power of retirement income. After 20 years, a $25,000 benefit at retirement falls 67% of its original value at one percent inflation and 82% of its original value at two percent inflation; demonstrating what happens when benefits do not increase with inflation.

The types of COLAs include Ad Hoc, Automatic or Fixed Rate, Based on CPI, Based on Investment Earnings or Gain Sharing, Based on Funded Status, Purchasing Power Protection, One-Time or 13th Check and Self-Funded Annuity Option. The funding is the most important portion when considering a COLA in addition to structure.
The two most common types of COLAS are Ad Hoc or Automatic. Ad Hoc requires the governing body to approve a post- retirement benefit increase. The Automatic or Fixed Rate PBI occurs without action and is typically pre-determined by a fixed rate (e.g. 3%) or formula; already baked into the funding.. Louisiana has an Ad Hoc PBI. Some state combine some of these mechanism; some are based on CPI and COLAs are granted authorization; others are based on investment income. Louisiana COLAs are based on investment returns Others can build in funding status; allowing COLAs to be granted what at certain funding status. Another is the Purchasing Power Protection that is a based-COLA that is pre-funded; a supplemental COLA that reviews purchasing power being maintained. A One-time or 13th check allows systems to wait until there is sufficient funding for a one-time increase versus an on-going increase. In 2009, Louisiana enacted the Self-Funded Annuity Option; selected at retirement where basically the selection is to trade a lower retirement option on the front end for guaranteed COLA increases as one proceeds through years of retirement. To date, there has been little uptake on this at-retirement option. LASERS has seen de minis selection with 157 out of approximately 150,000 retirees selecting this option since 2009 and 16 with TRSL. It would take 20 years to make this option finacialy beneficial for LASERS.

The heart of COLAs are the funding sources, especially given the reality of funding COLAs are composed of but a few sources. The sources are employer contributions, employee contributions, investment earnings and direct appropriation. In the report are complications from each source like budget strains with employer contributions. Employee contributions may be an option for new employees though legal and equity complications can arise with current members. Currently funded by investment earnings, but while independent of employer contributions as investment income is diverted it can effectively reduce the amount of gains and reduce employer contribution rates. Whether from the general fund or dedicated fund such as a tax, direct appropriations have been done by some states.

Common eligibility criteria in Louisiana include the requirement of age 60 and retired for at least one year. Throughout states, age, years since retirement and years of service are common criteria depending on COLA type.

Louisiana's pensions are modest, reliable and enable retirees to purchase goods and services. The average TRSL and LASERS benefit is $27,000/annually. Most state public employees cannot participate in Social Security, making this their primary income source. Added effects occur by the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO), if they have previous private employment or a spouse has previous private employment.
Many constituents have communicated with legislators regarding these offsets which is a punishment, as the private employment earnings are offset or reduced. The same is true with the GPO.
Senator Mizell questioned the thoughts behind activating these punishment measures.
Director Rougeou answers that these were put in place by the federal government. In the 1950s, states were given the option to put public employees in either the Social Security defined benefit plan or create their own equivalent defined benefit plan. Louisiana chose to create the various retirement systems and the defined benefit plans that accompany each. The federal government likes to analogize the government pension our retirees receive as though they are also receiving another federal pension. It is not and fundamentally unfair. It is no difference in receiving a DOW pension along with Social Security benefits. Because it is a federal law, there is no action on this and would cost billions to eliminate this reduction. Changing the formula of the reduction would hold some merit, allowing retirees to keep more of their earnings. Few states are like Louisiana with these benefits that are greatly reduced. Louisiana is one of a handful of states where the majority of public employees do not participate in Social Security.
Representative Bacala questioned the annual pension of $27k is scewed by a employees who work for only 10 years; having a career they retired from and then became a state employee and retired a second time. How many current employees have 10 years or less or 30 years or more, along with the average annual income for each?
Director Rougeou confirmed the information will be sent, as the concern is legitimate. If a pension is earned in the private sector and also retires from the state, their income will be offset.
Representative Ivey questioned whether the offset is only for Social Security benefits earned.
Director Whitney answered yes, the Social Security benefit is reduced.

Representative Ivey confirmed teachers who have had 30 year careers at historically low wages need attention as we work to fund some of this needed catch-up monies.
Director Whitney confirmed in one of the appendices, poverty levels are broken down by years of service. TRSL can break that down from a broader perspective and from K-12 and higher education showing disparities for each.

Director Whitney continues presentation with confirmation that COLAs have become unpredictable since 2010. TRSL and LASERS paid two regular PBIs; LSERS and LSPRS paid three regular PBIs. Nine COLAs paid by Social Security.
Louisiana grants ad hoc PBIs with funds in retirement system experience accounts; credited with excess system investment earnings. In addition to sufficient funds needed in the experience accounts to pay PBIs, they must be approved by the legislature. Dating back to 2009, more excess earnings have been steered toward reduction of the UAL versus credits to experience accounts - resulting in balances of today.
Current statutory structure hurdles imposed on crediting experience accounts made it unlikely that a PBI will be granted in the foreseeable future.
Experience accounts for TRSL and LASERS was initiated in 1992; LSERS and LSPRS was created in 2007. At that time, any excess in returns over the assumed rate of return were split 50-50 to experience account and amoratorized as a gain; to reduce/offset employer contributions. At that time, the COLA granting criteria was based upon investment performance. The COLA amount was based whether a target return was met, in addition to the amount of inflation. It was never more than the rate of inflation in a particular year.
In 2009, significant changes occured to experience accounts, the system debt structures, and pension reform. This was a key and effective component and has helped the funded ratio today. The impact on the experience account was a 2009 Act that consolidated the systems debt, creating two schedules. Hurdles were implemented. Instead of the investment returns being split 50-50, now hurdle amounts had to be reached. For TRSL, it was two hundred million. For LASERS, it was one hundred million. PBI granting provisions were added, prohibiting any PBI from being issued if the system was not 80% funded. This was the first big marker, slowing funds into the experience account. In 2014, there was an added hurdles; TRSL was two hundred million and LASERS was one hundred million began and designed to grow based upon how the actuarial evaluation of assets grew. As the assets grew, the hurdles grew. These hurdles were put in place in 2014 for LSERS and LSPRS. In 2014, a matrix was created when and how much could be granted for a COLA.
Director Rougeau stated the primary driver for this was to utilize more of the excess investment earnings to reduce debt. Since 2009, we have put $1.5 million toward paying debt that could have otherwise gone to pay COLAs. For LASERS, that was approximately $550 million. The legislature has done tremendous work to reform and improve the sustainability of the systems.
A complex matrix was place in 2014 for LASERS and TRSL. LSERS and LSPRS is different and a bit less complex; there are no three marks of return that LASERS and TRSL do but it is for the most part the same. This is based on funded level and whether a COLA was granted in the prior year

and what the return investment. The amount of the COLA that can be granted is based on the systems funded percentage. This matrix will need review when considering payment of a COLA will impact cost. If you wanted to decrease the cost, changes would need to be made accordingly.
To provide an idea of the expereience account status, there are original and current hurdles for each state retirement system; showing the growing since 2014 that required the hurdles to grow along with the actuarial value of assets. TRSL showed a 24.8% increase now at $249.60M, LASERS 10.4% with $110.4M, LSERS 9.1% with $16.3M and LSPRS 45.5% at $7.2M. The hurdle must be prior to monies transferred to the experience account.
It would take a number of years for strong investment returns to make these deposits. Systems would need the following market returns in FY 2021 to deposit sufficient funds in its experience account to produce a balance that would equal "just half" the cost of funding a 2% PBI:

- TRSL would need 17.5% market return in FY 2021 - $77M deposit needed.
- LASERS would need a 28.8% market return in FY 2021 - $97M deposit needed
- LSERS would need a 23% market return in FY 2021 - $7.9M deposit needed
- LPSRS would need a 16.4% market return in FY 2021 - $2.4M deposit needed

This illustrates the challenges given the current COLA structure.

Representative Ivey questioned excess gains term, especially when these funds are not fully funded and whether it is constitutional or statute requiring a COLA to be fully funded. So much money is needed in order to actuarilly pay for the lifetime of a COLA. It must be paid actuarially upfront and very expensive.
Director Rougeau answered that the constitution requires the actuarial soundness of the system in all aspects. We have only done fully-funded COLAs. Statutes have certain criteria, one is that we have funding available to fully fund.
Representative Ivey questions whether the stated hurdles were an accurate assessment or were the hurdles too aggressive.
Director Whitney answers the belief at the time that it would be as difficult to put money in the experience account with the hurdle. With the actuarial value/growth of the hurdles increasing, has made it even more difficult.
Director Rougeou responds that the hurdles were not originally indexed to the fund value. Now that they are indexed, it is made more difficult to make deposits.
Representative Ivey asked if it was the 1992 experience account that went negative to a billion dollars.
Director Rougeou answers it was not in 1992. It was over the source years. Senator Boissiere passed legislation that would eliminate $600 million in the LASERS deficit that created a floor. That cost was rolled into the UAL, and the experience account was no longer allowed to decrease based on negative investment returns.
Representative Ivey questioned where is the experience account that was negative one billion.

Director Whitney answered that is in the EEAB, which is the second schedule. In 2009, when the schedules were consolidated, all the schedules representing gains were placed in the original amortization - OAB. The first indexed hundred million goes to OAB for TRSL and fifty for LASERS. The negative billion went into the experience account amoritization base as well as all other lost schedules.
Representative Ivey stated the history of our experience accounts is not a very good experience. What is the point of a gain-sharing program when there was never going to be any gains. You can't pay COLAs when we don't have the money. We will have to develop a solution to add more funds to the plan, create safeguards or not pay them.
Director Rougeou stated we are not on an ever-increasing trajectory of debt and the ever-rising employer contribution rate. It is constitutionally required to be paid off by 2029; probably being paid-off a year earlier. This means the employer contribution rate will decrease precipitously. The legislature will have a future opportunity in 2029 or 2030 to see a 20% reduction.
Director Whitney stated prior to the hurdles being indexed, TRSL paid two, LSERS and State Police paid three in the last 10 years.

Director Whitney stated a number of alternative methods have been identified, will all tie back to the four ways COLAs can be funded previously mentioned. The first alternative method uses employer contribution rates, indicated by a split into three options.

1. Any time the employer contribution rate is expected to decrease, all or a portion of the anticipated reduction to remain in effect and dedicate it to the experience account. We do expect in 2029 and potentially even before, a steady decrease in employer contribution rate should be seen.
2. Add a component to the employer contribution rate, indicating a certain amount will be added to fund COLAs. There would then be four components to that rate to directly fund COLAs: normal cost, UAL, non investment-related administrative expenses and the PBI.
3. Not a defiinite source but one to be aware of is when the actuary projects a rate; employer contribution rates are always a projection paid through the year by employers. The projection is the number of people in the system, salaries and what payment will be received; each year this is trued-up and the actual experience is reviewed, determining what needs to be collected. This creates a variance that is a surplus or a deficit. If it is a surplus, meaning more was collected than was needed, it currently goes directly to the EAB/debt to be paid. If it is a deficit, it is amorotorized over a period of time, which helps the employer. The surplus amounts could go into the experience account. TRSL projected surplus for 2021 is $28.6 million; since 2008, total contribution variance surplus is $432 million.

The second alternative method is reducing hurdles previously discussed; capping the growth of those hurdles could produce monies that could go into the experience account. This is similar to the flat employer contributions; adjusting hurdles to have more of the excess into the experience account.
The third alternative method is more complex. There are three types of members that must be considered when considering COLAs - new hires, active employees interested in receiving a COLAs

upon retirement and current retirees, who are absolutely tied to the experience account. Each approach differs for each group.
One approach with the prevailing method, that states would fund COLAs the same as regular benefits.

> Approach for New hires: build a COLA into their structure base benefit that includes salary, years of service and accrual rate. This is guaranteed versus COLAs only available if there are sufficient funds. This approach would be build the COLA into that structure and bake it into the normal cost. This will increase the employee and employer contribution rates as a shared expense - set and actuarially determined.
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> Approach for current active members and retirees: for this discussion these are lumped together and would be tied to the experience account. In 2029, when it is anticipated the IUAL is paid but potentially before that where there are steady decreases in the employer contribution rate and eliminate gain sharing. This would move to an employer contribution rate funding the COLA. Knowing of the reduced rate in 2029, the new rate to fund COLAs would replace that reduction. Note: none of these items have been costed. Monies are placed into the experience account from the employers. For the next ten years, if gain sharing remains in place, are the hurdles relaxed at any period to infuse funds in the experience account that fills gaps until the employer contribution rate would solely pick it up.

The fourth alternative method was requested by Senator Price, regarding the MPERS bill from the 2020 Regular Session - HB 19. This would establish a PBI pre-funding account, allowing for an employer contribution rate set above what is actuarily required. The excess funds generated from this amount would go to a pre-funding account, allowing for a COLA. A companion of this would be the criteria and trigger cost of that COLA but effectively funded by the employer contribution rate.
The fifth alternative method relates to those, by years of service, are below the poverty line. In 2009, Act 144 was used to lift retirees of TRSL and LASERS up to poverty level, addressing a minimum benefit increase. This $300 would only apply to those with 30 or more years of service, retired 15 or more years, whose monthly benefit was less than $1,430 or $17,240 annually and did not participate in DROP/ILSB to limit the pool.
An alternative to providing a minimum PBI would be to use the PBI eligibility in current law and provide eligible retirees/beneficiaries with a 13th check (a one-time additional benefit check).

Senator/Chairman Price stated his understanding of the fourth method, understanding the cost, and how quickly an adequate amount could be reached. This would be potentially more expensive for new hires.

Represenative Bacala stated when employer contribution rates were scheduled to decrease, the option of keeping employers at the higher level was chosen in order to fund COLAs or reduce the UAL During a recent Louisiana Municipal Employee Retirement meeting noted the reduction from 2019 was four percent of employer contribution. There was great interest in keeping it at the higher level. We were advised that state law prevents them from any other action but collecting the actuarial rate.

In this instance, our law was the hurdle preventing independent action to address COLAs, UAL or the experience account. The law prevented them from helping the financial element of this system.

Chairman Price confirmed varied laws will have to be reviewed that prevent systems from meeting certain hurdles. The legislature will have to review how to re-enter the game of funding COLAs.

Representative Ivey stated any members who want to contribute the pay-down of the UAL or pay for COLAs has his support. As employers beg for relief, he questioned the existing thresholds as the burden on employers drop and what needs consideration.

Director Whitney answered the employer contribution rate can not go below a 15.5% floor. There are also constitutional provisions related to the ratio that existed in the 1980s. This will have to be reviewed..
Director Rougeou responded this is in line with these discussions. The legislature can decide when triggers occur. Depending on what percent it falls, any amount of a percent can be captured to fund a COLA. There is precedent that the legislature has passed a required amount.

Representative Ivey questioned what is an example of a successful state PBI program.

Director Whitney answered that one built into the benefit would be one of the best.
Director Rougeou answered that "the best" would have to be reliable and dependable.

Chairman Price reads the following cards into record:
WITNESS CARDS

Katherine Whitney, Director, TRSL	Present & would like to speak
Cindy Rougeau, Executive Director, LASERS	Present & would like to speak
Kevin Reed, Director, LSPRS	Present & will provide information if needed
Kimberly Gunn, LSPRS	Present & will provide information if needed
Clair Guidry, LSPRS	Present & will provide information if needed

Shelley Johnson, TRSL & LASERS	Present & will provide information if needed
Greg Curran - Actuary LSPRS & LSERS	Present & will provide information if needed
Charles Bujol, Executive Director LSERS	Present & will provide information if needed

VI. ADJOURNMENT

There being no further business before the committee, Senator Mizell moved to adjourn. Without objection, **the meeting adjourned at 4:23 PM.**

Respectfully submitted,

Edward J. "Ed" Price, Chairman

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Approval Date