Excerpt from November, 2008 LSPRB Minutes

fees, which should show a large enough reduction. A **MOTION** was made by Bobby Smith to make the above changes to the proposed FY 2010 budget. The motion was seconded by Lt. Charron Leachman. No opposition. The motion passed.

9) Irwin Felps gave the Board a brief update on the handbook noting that Kimberly Gann is out sick today, but assured the Board that she is on target to have the handbook ready to review in January.

10) At this time, Charles Hall presented the June 30, 2008 Actuarial Evaluation (See Exhibit L on file at the LSPRS office for the evaluation). Charles Hall explained that the evaluation was done in accordance with the Louisiana statutes and that he has relied upon the data that was supplied by LSPRS along with the audit and financial statements provided by Heinz & Macaluso. In the evaluation he provides a summary of the important information along with comparable data for the prior two years. The retiree population (1,153) has increased slightly along with the active population (1,059) which also increased slightly. The terminated vested members have remained fairly constant at 24 members and the DROP participants decreased to 27 members. Mr. Hall explained that the annual benefit payments have increased to \$31.2M. This increase in benefits was the result of new retirees coming on the pension rolls at higher pensions that exceed the pensions of those that passed away during the year of whom had much lower pensions. Our payroll has increased this year to \$56.7M, which has a lot to do with new academies coming on as older troopers' retiree. The higher salary troopers that are retiring are being replaced by younger troopers just coming out of the academy at a lower salary. The valuation assets have increased significantly from \$428M to \$439M. In the actuarial value of assets we use a smoothing technique and we smooth gains and losses over a three year period. This means that if there is a gain from investments (anything over 7.5%) we are only allowed to recognize 25% of it the first year, 50% the second year, 75% the third year and 100% there on. This says that the actuarial value of assets trails the market value of assets, so if the market value is increasing the actuarial value increases, but it trails and when the market value decreases the actuarial value may still increase because of the carry over of gains. Then it will eventually follow it through its decrease cycles. The auditors reported that we have \$424M in assets, and the actuarial value of assets is \$438M, which is about \$14M more. This is the direct result of the fact that last year you had a market value rate of return of 16.15%, so we had excess earnings of almost 9%. This inflates our assets for this year and we can expect, based upon the downturn of the markets to see the actuarial value of assets to follow that, because we will be forced to realize those losses and spread those losses over the next three years. Some of those losses will be mitigated by some of the gains that we are carrying forward. The market value rate of return was at -5.24% with the five year annual return of 7.51% and the ten year annual rate of return of 4.92%. The yield to actuarial value is 4.55%, which is what we will credit the DROP accounts with less one half a point (4.05%), is significantly below the market value of 16.15% primarily because of the unrealized appreciation. The five year yield to actuarial value is 4.8% with the ten year being at 6.31%. He reminded the Board that we were able to establish an Experience Account. This is designed to deposit excess interest earnings when they develop and allow us to accumulate them so that we can accumulate those excesses for the purpose of granting a COLA to our retirees'. Unfortunately, because we did not have excesses this year, no deposit was made to that account. The normal cost of the plan increase from 24.16% to 26.09% of payroll, which is a 2% increase in payroll. Mr. Hall explained that we knew this would increase and is the result of having changed some of the actuarial assumptions that were required. Most notably we changed the mortality tables, and the mortality tables did exhibit a longer life expectancy. The unfunded liability increased rather significantly from \$158M to \$199M, and with the increase in the unfunded liability, the funding percentage decreased from 73.0% to 68.7%. He explained that this means that the fund is not as healthy as it was last year, which is due to the downturn in the markets. We have an employer rate this year of 30.9%, but the rate that will be recommended at the PERSAC Committee, which the Board will need to approve for next year 41.3%. Mr. Hall explained that this was not unexpected because during the last fiscal year we introduced legislation that would help the system significantly in its funding and also in turn help the state by changing the amortization schedule of the unfunded liability from an increasing amortization schedule to a level dollar amortization schedule. This will begin with the next fiscal year and that is why the number appears to jump for next year. We are going to change the

27 in DROP as of 6/30/08

UAL: \$199 M @ 6/30/08

Now at \$323M, a 62% increase since 6/30/08 → now stands at about \$350,000 per trooper!
Cost to amortize over 15 years (between state and trooper with 7% return) = \$38,000/trooper per year.

schedule, and when you change it to a level payment as opposed to an increasing payment we are going to see our amortization payment jump up on July 1, 2009 hence the increase in the required contribution. Mr. Hall explained that we started off the year with $158.6M in un-funded actuarial liability. The interest on that un-funded liability was $11.9M, which increases the unfunded liability. The change in the actuarial assumption of $9.2, which we knew was going to happen as a result of the Experience Study. There was an investment loss and we did not make the 7.5% actuarial rate of return, so the difference between what we actually earned on an actuarial basis, being 4.55% and the 7.5% is almost 3% of assets which represents an investment loss. We also had an experience loss of 17.3% which is indicative of the change in liability relative to whether or not our retirees live a little longer than we expected, more deaths, higher salaries, lower salaries, more disabilities, or less disabilities. In other words, it is the change from what we expected, and each year it will be a gain or a loss, and over time that tends to offset each other. This year we had a shortfall gain of $2.6M, which means that we received more contributions and is one of the things that decrease the un-funded liability. This amount will be credited over the next five years. We also received amortization payments of $7M to pay off the un-funded liability. The shortfall gain and amortization payments helped to decrease the un-funded liability so that we have a net amount at the end of the year of $199.7M. We had decreases of almost $10M and increases of $50M, so we expected to increase the un-funded liability. A **MOTION** was made by Capt. Charles Dupuy to accept the Actuarial Evaluation and the required employer contributions contained therein. The motion seconded by Lt. Charron Leachman. No opposition. The motion passed.

{Col. Edmonson exited meeting during Mr. Hall's presentation and returned during the legislative discussion}

11) Randy Zinna explained that he needs to be informed any proposed legislation that the Board may be thinking about. He explained that we need to know between now and the January 21st Board meeting, so that he can prepare drafts. Mr. Zinna explained that there was a meeting and few things were discussed such as the possibility of a Back DROP plan for this system similar to that which the Sheriffs', Assessors' and District Attorneys' have implemented into their plans. The Back DROP is a mechanism by which you do not go into a DROP plan, but essentially go to the end of your career, you look back in order to determine the amount that would go into the Back DROP account. It tends to be costly in its implementation but he will defer to Charles Hall to provide that cost. Essentially, it is like an entirely new plan, so it would be like Mr. Hall preparing a different valuation. Capt. Charles Dupuy stated that he, Col. Edmonson, Lt. Col. Dale Hall, Lt. Col. Dane Morgan, Frank Besson, and David Young met with Charles Hall and Randy Zinna. He explained that what they would like to do is to get Charles Hall to put together the cost, and have Mr. Zinna put the legislation together presenting it to the Board after they look at funding sources and the possibility of introducing this piece of legislation. Capt. Dupuy explained that they would not do anything to put this retirement system at risk and if they cannot identify a funding source that is adequate to what they want to achieve, then they will not ask this Board to push this legislation forward. He explained that they would like to request that the Board approve Charles Hall doing the research and Randy Zinna writing the legislation; then, allow the individuals mentioned above to try to secure funding sources and bring it back to the Board before the regular session. He explained that if they have all those pieces in place and the Board agrees, then they would hope that the Board would support them and go forward with it because it would benefit every trooper on the job currently. Vice-Chairman Frank Besson asked if the funding cost must be paid in ten years. Mr. Zinna answered stating that it is ten years by the Constitution and stated that Charles Hall would have to go through the costs, however, you have a constitutional provision for us as a state system that we have to identify a new independent funding source and the amortization period is ten years at the most. Mr. Zinna stated that the legislative committees have recently approved these types of requests but they were for statewide systems who provided their own funding. Matthew Tessier, attorney for the House Retirement Committee, explained that, for instance, the committee looked at the District Attorney's request and they were 105% funded. The rationale there was that it was mostly local funds, they are really well funded and payroll is not going to raise the employer contributions that much for the states contribution. In the case of Assessors', it is all local funds, so the state did not feel like they had an issue in that request. Capt. Dupuy stated that the generation of revenue by commissioned officers goes to the local agencies with no benefit to the state, so in essence they are able to benefit those incomes and say they are local dollars, but you have a state trooper out there writing citations where the District Attorneys' and the Assessors' are getting money from those fines. They are not paying the salary of the trooper or the benefit of the trooper.

perhaps it is this 60-day window that prompts Col. Edmondson to say he was "forced" into DROP.

Lt. Col. Dane Morgan asked to also propose a second piece of legislation, in case the Back DROP did not pass, that we do away with the sixty day window for joining DROP. Mr. Zinna stated that would do away with the necessity to go into DROP at a particular time. In other words, you would not have to go into DROP when first eligible, but could go into DROP at anytime that you want before you retire. Lt. Col. Morgan stated that he wants to make sure that this is a different piece of legislation. Capt. Dupuy stated that when they met on this earlier he found it interesting that Mr. Hall stated that DROP was not designed for this system. Mr. Hall explained that it was a situation where Teachers and LASERS wanted a DROP program, and it was not possible to give them the type of a DROP that the Municipal Police had. The Municipal Police was really the first statewide plan to get a DROP plan and there is no window with their DROP plan, but, you have to be eligible to retire. It was some years later that Teachers and LASERS decided that they wanted a DROP plan. The demographics of the plans are not same. Teachers and state employees tend to work to older ages, while policeman typically would retire when they reach 25 years of service. So, there is a big disparity in the demographics of these plans and consequently you are going to be charged with creating a plan that is defined as being actuarially cost neutral. It means that the new plan cannot have any funding requirement in excess of what the old plan has. The two plans have to cost the same thing. This was not the case for teachers and state employees as they could not have a plan like Municipal Police or Firefighters. Modifications had to be made in order to make the costs the same were the establishment of the DROP window meaning that you had to elect to participate as soon as you were first eligible so that you would freeze the final average compensation. When you have a plan like that, inherent in any plan as a neutrality aspect of it, there are going to be some people that benefit from it and there will be some people that do not benefit from it. Unfortunately, when state police decided that they would like to have a DROP plan, the legislature took the position that this was a state plan as was TRSL and LASERS and they basically did not want the state troopers as a state plan adding a different DROP plan than what the other state systems had. Consequently, state police was allowed to have a DROP plan, but only one that mirrored what TRSL and LASERS have, and obviously that plan was not designed for the state police. He explained that had he been allowed to put a DROP plan in for state police at the time that was actuarially cost neutral, they would have gotten one that mirrored Municipal Police's plan. This was not allowed to happen, so you have a plan that is not designed for your membership, and, in fact, probably hurts your membership more than it helps because you are forcing these individuals into DROP at a much earlier age and consequently they are working longer after DROP. If you could put any DROP plan in, what would you choose to put in is the Back DROP. However, the Back DROP plan is not an actuarially cost neutral plan. It has a cost associated with it because you are allowing somebody to make a choice when they retire to either choose the current plan or the DROP where they can look back three years prior, freeze the final average final compensation as if they went into DROP three years ago and receive DROP money for that three years. You are getting to make the decision after the fact. They can take the benefit of their higher monthly benefit accrual for each year of service or can take the benefit that gives them a three year look back with three years less service and a monthly pension and three years worth of DROP accumulation. Given the choice, everyone is going to choose the one that is the most advantageous to them, and so, consequently, you incur a cost because if given the choice everybody will choose the best alternative. Since you are looking at the end of your career the Back DROP is always going to be more valuable, at least for the vast majority of the membership. Capt. Dupuy asked Mr. Hall if he had someone come to him and say that they have an opportunity to go into DROP in the state police system right now, would Mr. Hall recommend they do it. Mr. Hall answered stating that he would ask them the question of do they think they will be receiving a substantial pay increase in the next three years. If you do, then Mr. Hall's advice would be not to go into DROP. Mr. Hall stated that they would generally ask what a substantial pay increase means. The answer is if you believe that you are going to receive a 15% to 18% in the next three years and your

There's the word "forced" coming from Hall!

Exactly what happened to Edmonson (Big salary increase) but he was already in DROP when Hall gave the answer

intent is to continue working after the three year DROP then he would not recommend going into DROP. The only way that this recommendation would be wrong is if they did get the pay increase and they did go into DROP and for some reason DROP interest was earning 15% to 20% a year, but this is not usually the case. Most of the troopers that intend on working after DROP that do get these pay increases wind up losing some of the value of their pension plus their DROP money is not as valuable as the pension would have been based upon their higher final average compensation not going into DROP. Irwin Felps asked Mr. Hall if he felt comfortable in doing both the analysis to remove the sixty day window and Back DROP. Mr. Hall stated that he does feel comfortable doing the removal of the window analysis, but the Back DROP constitutes a special project because this is like a brand new retirement system. He would have to create a software program to do this, which will take time. If you decide to go that route he would have to ask to defray the cost of the special project. Bobby Smith asked how much time he would need to prepare this valuation. Mr. Hall stated that it would take about twenty to thirty hours with a cost of between $3,000.00 and $5,000.00. He explained that if he were given the okay to go forward with this, his intent would be to have something to Mr. Felps by mid to late January and that would give the Board enough time to decide whether or not you are going to go forward with legislation. Mr. Felps indicated that in our budget for 2009, we have the annual actuarial fees proposed for $25,000.00. He explained that in the 2008 budget we had $24,720.00, so we kept it at $25,000.00 for 2009, which would allow for our normal fees with Mr. Hall of about $19,000.00 to $20,000.00 plus an additional $4,000.00 or $5,000.00 for the special studies. Mr. Felps stated that he believes that we would be alright in 2009, the fiscal year we are in right now, with the $25,000.00 if we use that budget again. In the 2010 proposed budget we dropped the actuarial fees back down to $20,000.00, because we did not anticipate any special projects to be done. He explained to Mr. Hall and the Board that we would have the funding for this analysis and stated that it is critical that we at least analyze this getting the cost so the Board can make an informed decision about what is appropriate. Mr. Felps stated that we would like to have this by the next Board meeting in January so that Randy Zinna can get the legislation together, and if the Board approves it we could have it to the legislative committees on time. Vice Chairman Besson indicated that the LSTA has a Board meeting in two weeks, and he would be willing to see if they would fund at least half of the analysis that would be done by Charles Hall. Mr. Felps stated that the retirement system would handle that funding, and there is no need to ask the LSTA, but would let Vice-Chairman Besson know if there are any problems with funding it. A **MOTION** was made by Bobby Smith to have Charles Hall go forward with the analysis for the cost of creating a Back DROP plan, and to have Randy Zinna move forward with the legislation. The motion was seconded by Col. Dane Morgan. No opposition. The motion passed. A **MOTION** was made by Lt. Col. Dane Morgan to have Charles Hall go forward with the analysis to remove the sixty day window in DROP as well as having Randy Zinna go forward with the legislation. The motion was seconded by Bobby Smith. No opposition. The motion passed. Col. Mike Edmonson stated that he believes that it would be smart to go this way, because it will work out very well when we look at the cost. He stated that he believes that removing the sixty day window would be more easily handled from a cost standpoint. Randy Zinna stated that Mr. Hall conjectured that there may be no cost in removing the window. Mr. Hall stated yes, but he needs to go back. Mr. Hall explained removing that window is not considered a special project because everything in place and is not like changing the demographics of how people stay or retire. Mr. Zinna asked what is the cost from an actuarial standpoint. Mr. Hall stated that he does not know because a lot of it depends upon how you look at it. He explained that it depends on whether or not he can compare to how things were before the stock downturn and if he can do that and calculate those terms it very well may be that it may have an actuarial cost. Matthew Tessier asked Mr. Hall if it would be safe to say that Tom Rice is going to put a cost on this because of the anti-selection law. He explained that if a member can wait until he knows he is done with his raises and can wait to enter DROP at anytime it produces an environment where he can anti-select against the system. Mr. Hall explained that Mr. Rice can say that, and those kinds of accusations were made when we put the DROP in for Municipal Police, and if it were going to be anti-selection then that anti-selection would show up in the normal cost rate of the plan. He explained that when he designed the DROP plan for Municipal Police because of their retirement patterns, it did not matter that there was a window in the plan because they were retiring in such a manner that we would have paid the benefit whether there was a DROP plan or not, and you say that there could be anti-selection, it would show up