Teachers' Retirement System of Louisiana (TRSL)

Senate Bill 10 Undermines TRSL Pension System

Senate Bill 10 injects major financial risk into the 72% funded Teachers' Retirement System of Louisiana (TRSL) at a time of great market volatility, committing the state to a high likelihood of growing unfunded liabilities.

Unfunded Liabilities Likely to Increase Under SB10

- ✓ Allowing Optional Retirement Plan (ORP) members to transfer to TRSL at the current 7.25% discount rate means future underperformance could create new unfunded liabilities directly tied to transferees.
- ✓ With over $2 billion in ORP assets, such a change could lead to a significant increase in the present value of pension benefits payable.
- ✓ Those who perceive a transfer to be financially favorable are the most likely to initiate a transfer, while TRSL risks incurring unfunded liabilities on their behalf.
- ✓ Louisiana's Legislative Auditor warns that allowing such transfers is likely not cost neutral because the actuarial cost for the purchase is based on TRSL's "comparatively generous assumptions" and the "lack of individual underwriting that an insurance company would undertake", including health information.

Senate Bill 10 allows members of the teacher's Optional Retirement Plan (ORP) to revoke an irrevocable election and transfer to TRSL during a six-year period by making an actuarial "transfer" from the individual's ORP account.

Unintended Consequences Likely a Bad Deal for Employees

- ✓ SB10 assumes the ORP is like a standard 401(k) plan with mutual fund investments, but in fact it is a complex retirement plan with investments designed to deliver lifetime income for retirees. Depending on the investment products they hold, employees who transfer ORP assets may forfeit substantial amounts of retirement savings by moving to TRSL.
- ✓ Each ORP vendor—Voya, TIAA and AIG—has investments that may have liquidity restrictions limiting the ability to comply with the 100% transfer requirement within the transfer window period.
- ✓ Some of these investments may also have early withdrawal reductions that affect the amount eligible for transfer, while market conditions could also lead to employees withdrawing their ORP at a low value.
- ✓ Use of after-tax money to make up the difference between a member's ORP value and their new TRSL benefits requires the tracking of taxable vs. non-taxable amounts of each annuity payment, increasing the overall complexity of the TRSL system.

Bottom-Line: *SB10 is likely to shortchange members and weaken a teacher pension system already burdened with $9.3 billion in unfunded, constitutionally protected retirement benefits.*

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