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LASERS RESPONDS TO PENSION SUSTAINABILITY REPORT

Baton Rouge-In response to continuing reports in the media about the sustainability of public pension systems issued by Joshua Rauh, assistant professor in the Kellogg School of Management at Northwestern University, LASERS is issuing the following points that must be considered in this ongoing debate. Rauh has repackaged and re-released his studies in various forums, but all are basically flawed.

Among other claims, that Louisiana is projected to be the sixth state to "run dry" for pension funds. The reports do not identify which of the four state or nine statewide retirement systems have been analyzed. Further flaws are:

- The reports substitute academic theory for actual long-term market experience, drawing conclusions that are unfounded and alarmist.
- This type of academic analysis is not a true reflection of public pension solvency or actuarial soundness.
- The presented analysis is not a realistic or accurate measure for public pensions.

1. **The reports assume the state will pay only the normal cost of accruing benefits and make no payments toward the UAL (Unfunded Accrued Liability)**
   - Rauh states that "this assumption is broadly in keeping with states' recent contribution behavior." In fact, in Louisiana, the state has paid the actuarially required contribution, which includes the UAL payments, every year since 1989, as required by our Constitution and statutes.
   - Louisiana constitutionally requires payment of the UAL of the state retirement systems by 2029.

- Payments to the retirement systems are determined using the 2029 deadline and in 2009, the payment schedule was adjusted, saving $500 million.
- Rauh's assumption that these payments will not be made is without merit.

2. **The reports presume pension insolvency by discounting future pension liabilities at a risk-free rate, rather than at the expected investment return rate.**
    - Since the current risk-free rate is very low (around 4 percent), future liabilities appear to be much higher than they are under the standard GASB calculation method.
    - Presuming a risk-free rate rather than our current expected actuarial rate of return (8.25%) would result in a substantial and unwarranted increase for the State of Louisiana in its employer contribution.

3. **LASERS has historically had investment returns that exceed expectations.**
    - Through June 2009, LASERS had a 25 year compounded actuarial return of 8.41%, exceeding the expected 8.25% return.
    - Through June 30, 2010, LASERS fiscal year market rate of return was 16.1%.
    - The greater than $8 billion in the LASERS trust is more than adequate to pay benefits due to members on an ongoing basis.

4. **Reforms are Addressing Concerns**
    - Sweeping reforms were enacted in 2005 for LASERS new rank and file members; the legislation reduced pension costs, increased employee contributions and minimum retirement age, and implemented a 5 year final average compensation calculation.

- The 2010 Legislature made further reforms to reduce pension costs by making additional changes to employee contributions, minimum retirement age, and final average compensation.

For more information, please contact LASERS Public Information Director Robyn Ekings at www.lasersonline.org or 225.925.7590.

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