DISTRIBUTED PRESENTATION

“LSU & Retirement Reform”

LSU Faculty Senate Meeting
3:00pm, Wednesday, December 5th, 2012

RECAP OF CURRENT TRENDS

Increasing UAL Costs
Declining Employer Contributions
Unfunded Accrued Liability

Unfunded Accrued Liability (UAL) in simple terms: the amount owed in future pension benefits that exceed the current assets and their projected growth for a given pension system.

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<tbody>
<tr>
<td>LASERS</td>
<td>4,076</td>
<td>4,395</td>
<td>5,487</td>
<td>6,252</td>
<td>6,458</td>
<td>7,131</td>
</tr>
<tr>
<td>TRSL</td>
<td>5,960</td>
<td>6,583</td>
<td>9,339</td>
<td>10,806</td>
<td>10,810</td>
<td>10,956</td>
</tr>
<tr>
<td>LSERS</td>
<td>389</td>
<td>481</td>
<td>743</td>
<td>863</td>
<td>905</td>
<td>873</td>
</tr>
<tr>
<td>STPOL</td>
<td>159</td>
<td>200</td>
<td>282</td>
<td>313</td>
<td>339</td>
<td>344</td>
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<tr>
<td><strong>State Total</strong></td>
<td><strong>10,584</strong></td>
<td><strong>11,659</strong></td>
<td><strong>15,851</strong></td>
<td><strong>18,234</strong></td>
<td><strong>18,512</strong></td>
<td><strong>19,304</strong></td>
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Benefits are guaranteed under the state constitution for the four state retirement systems listed above.

New downward trend began with FY 2010
**FY 2014 Employer Contribution**

<table>
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<th>Normal Cost</th>
<th>UAL</th>
<th>Total Employer</th>
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<tr>
<td>5.18%</td>
<td>21.30%</td>
<td>26.48%</td>
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Employee contributes 7.95% + Employer’s 5.18% = **13.13% Transferred to Carrier**

“Transferred to Carrier” is the total amount deposited into the employee’s ORP account.

In FY 2010, the Employer’s Normal Cost (amount from employer placed into employee’s ORP account) dropped from **6.95%** the year prior to **5.76%**—the lowest amount in the 20+ year history of the ORP program.

Next year (FY 2014) projected Employer’s Normal Cost is even lower at **5.18%**.
LSU Supports Pension Reform

We believe the governor is correct when he says the state would be better served through pension reform.

At LSU, more employees belong to the defined contribution plan than any other retirement program.

LSU Supports Pension Reform

Known as the Optional Retirement Plan (ORP), it is offered to TRSL eligible employees—faculty and professional (unclassified) staff. Currently, at LSU:

- Over 60% of Faculty are in the ORP
- Over 50% of Professional Staff are in the ORP

And...

- Increasingly, new hires eligible for TRSL are choosing to join the ORP

The Optional Retirement Plan is LSU’s most popular, most important, and beneficial program!
LSU Supports Pension Reform

LSU’s commitment and dependence on a defined contribution plan aligns with calls for new pension ideas.

However, under the current ORP program LSU and its employees are penalized.

ORP “Tax”

For FY 2012, the actual UAL Cost for ORP employees charged to LSU was over $26 million.

The ORP creates no unfunded accrued liabilities.

This contribution grossly outstrips the amount required to support benefits for active and retired LSU employees in the defined benefit plan.
ORP “Tax”

Why? Higher Education and K-12 share the same retirement system. Comprising the membership of the defined benefit TRSL regular plan:

• Approximately **12%** are employed in higher education.
• And, nearly **88%** of its members are employed in K-12.

However,

• The defined contribution ORP program is almost exclusively limited to Higher Education.

The UAL Cost paid for ORP employees is applied to the entire membership of TRSL’s pension plan.

The Current ORP Program is Not Competitive

Despite the significant contribution by employees: **8.0%**

Plus, the enormous contribution by LSU: **24.4%**

For a combined total of **32.4%**

Employees receive only **13.64%** in pension contributions

*Note: Contribution Rates above are for FY 2013.*
Some Peer Comparisons

- **Arkansas**
  - 10.0% University + 10.0% employee = 20.0%

- **Mississippi**
  - 11.6% University + 9.0% employee = 20.6%

- **Ohio**
  - 10.5% University + 10.0% employee = 20.5%

- **Georgia**
  - 9.2% University + 5.0% employee = 14.2%

Impact to LSU’s Budget

In just 5 years, UAL costs for the ORP program have reduced LSU’s budget by $103 M

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tr>
<td>FY 2013</td>
<td>$ 27.7 M</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$ 26.0 M</td>
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<tr>
<td>FY 2011</td>
<td>$ 21.8 M</td>
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<tr>
<td>FY 2010</td>
<td>$ 14.9 M</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$ 12.9 M</td>
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<td>TOTAL</td>
<td>$ 103.3 M</td>
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This begs the question—would LSU be better off having its own retirement plan for faculty and professional staff?

What We Could Do with $103M

Create a competitive benefits package to retain and recruit faculty

More faculty =

✓ Increased research dollars = more economic development
✓ More students served = greater student success
✓ Retention of critical faculty & staff = higher productivity
What LSU needs

• Greater employer flexibility to offer benefits comparable to other flagships for its faculty and professional staff.
• A pension program that is consistent with a call for UAL reduction.
• Reduction in administrative costs associated with providing pension benefits.
• Does not affect those employees presently participating in TRSL’s defined benefit plan.
• While the university would continue to contribute its appropriate share of UAL into the defined benefit program, there would also be significant savings to further aid the state in funding other higher education initiatives on campus.

Better for LSU, Better for Louisiana

✓ Reduction of State’s Pension Liability
  • Removes a large group of people from the state’s pension roll
  • Simple and cheaper to administer

✓ Increases the competitiveness of the university’s benefit package

LSU is at a disadvantage against competitors in recruiting and retaining top talent.