August 26, 2009

Dear ORP Participants:

On July 1, 2009, the employer contribution to ORP participant accounts decreased from 6.95 percent to 5.76 percent. Understandably, this has drawn concern from people who participate in the ORP. Unfortunately, however, there exists a great deal of misinformation as to the cause of the reduction.

The Teachers’ Retirement System of Louisiana (TRSL) would like to provide you with some factual information about how your ORP account is credited with the employer share of your retirement contributions.

Employer contributions have two components: (1) the normal cost of the defined benefit plan, and (2) the required payment of the unfunded accrued liability (UAL). Taken together, these components result in an employer contribution rate for fiscal year 2009-10 of 15.5 percent. Both components are the same for ORP participants and TRSL Regular Plan members.

- **The employer normal cost rate for fiscal year 2009-10 is 5.76 percent.** The normal cost of the defined benefit plan is the cost of funding retirement benefits earned in the current year and is actuarially determined on an annual basis. Normal cost is based upon many factors regarding future events, including mortality rates, disability rates, termination rates, salary increases, retirement rates, DROP participation rates, and TRSL’s actuarially assumed investment return.

Historical data from the system for each of the above factors is used to produce an experience report. By law, the system actuary reviews these factors every five years and updates them, as needed. The TRSL Board adopted the latest experience report, dated March 2008, based on the actuary’s recommendation. Changes in these factors, primarily higher termination rates, lower salaries and later retirements, resulted in a lower normal cost rate.

The employer normal cost rate is what your employer contributes to your ORP retirement account. It is not based on TRSL’s market rate of return or on any payments toward the UAL.

Choices that employees make regarding participation in the ORP or in the defined benefit plan are cost neutral to the employer because employers contribute at the same rate to both plans.
The employer payment toward the UAL is 9.74 percent of payroll for fiscal year 2009-10. The bulk of the UAL is the initial unfunded accrued liability (IUAL). The IUAL is the debt owed to TRSL by the state for benefits given to teachers between 1936 and 1989, which were not fully funded. TRSL did not create this debt.

By law, the IUAL must be paid in full by the year 2029. Payments toward this debt follow an amortization schedule set by the Legislature. All TRSL employers, regardless of whether or not they have ORP participants, are obligated to pay this debt.

For each pay period in fiscal year 2009-10, TRSL will transfer a total of 13.6566 percent in contributions to your ORP carrier on your behalf. As ORP participants, you contribute eight percent of your salary toward your retirement less a 0.1 percent TRSL administrative fee. Your employer contributes the normal cost as described above. The 13.6566 percent TRSL transfers to ORP carriers on behalf of each participant also meets the minimum contribution of 7.5 percent required by Social Security.

Furthermore, even if the system were 100 percent funded, the fiscal year 2009-10 normal cost rate would still be 5.76 percent. The sum of the employer normal cost rate and the eight percent employee contribution would still result in a total contribution of 13.6566 percent for both ORP participants and TRSL defined benefit plan members.

Each February TRSL notifies all employers of the contribution rates once those rates have been reviewed and adopted by Public Retirement Systems’ Actuarial Committee (PRSAC). Click here to view a copy of this year’s letter that was sent to all employers.

Information from TRSL about the ORP, including terms of participation and contribution rates, is also made available in the system’s annual valuation report, Comprehensive Annual Financial Report (CAFR), and online brochure, Optional Retirement Plan (ORP).

The decision to participate in the ORP is irrevocable, and TRSL makes every effort to provide employees with the resources they need to make an informed choice, whether it’s individual retirement counseling or online brochures.

It should be noted that once an employee joins the ORP, they are not members of TRSL. At that point, all communication about their ORP accounts comes from their ORP providers and the personnel departments of their employers. TRSL recommends that ORP participants maintain regular contact with their providers and employers to ensure that they receive timely information about their retirement accounts.

For your convenience, here is the contact information for the three ORP providers servicing ORP participants in Louisiana’s higher education community.

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<tr>
<th>ING Financial Services</th>
<th>TIAA-CREF</th>
<th>VALIC</th>
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<tr>
<td>1-800-663-5792</td>
<td>1-800-842-2776</td>
<td>1-800-448-2542</td>
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