



2018



POPULAR ANNUAL FINANCIAL REPORT

FOR FISCAL YEARS ENDED JUNE 30, 2018 & 2017

A COMPONENT UNIT OF THE STATE OF LOUISIANA



MESSAGE FROM THE DIRECTOR

Dear TRSL Members and Benefit Recipients:

In my first year as System director, I am pleased to present the *2018 Popular Annual Financial Report* (PAFR) for the Teachers' Retirement System of Louisiana (TRSL). In this report, you'll find an overview of the System's financial position and investment performance for the fiscal year ended June 30, 2018. The information in this publication represents the combined efforts of the TRSL staff and its advisors.

I am happy to report that the retirement system continues to achieve outstanding investment returns. TRSL ended Fiscal Year 2018 with an 11.56% investment return (net of fees), making us #1 in the country among all public pension plans with assets greater than \$1 billion. Additionally, our strong investment performance resulted in the System's market value of assets setting a new all-time high of \$21.0 billion.

While we are always pleased with strong yearly returns, it's the long-term performance that is more important to the health of the System. For the most recent seven-year period, our annualized returns stand at 9.37%, placing us among the top performing funds (first percentile), according to the Wilshire Trust Universe Comparison Service (TUCS).

Good news about investment performance often takes center stage. Still, at fiscal year-end there was welcome news in other areas. Thanks to our strong market performance, the System's funded status increased to 65.8%—principal and interest on the unfunded accrued liability (UAL) debt have now been paid for the sixth consecutive year.

In administrative and operational performance, we continue to outperform our peers in the pension industry, and at a lower cost. According to CEM Benchmarking, Inc., TRSL's administrative costs are \$90 per active member and annuitant compared to \$112 for our peers—a group of 12 other similarly sized U.S. public pension plans. In the area of customer service, we also scored better than our peers on important customer service metrics, such as shorter call wait times and faster benefit processing.

We are always looking for opportunities to enhance services and achieve efficiencies. A few of our notable accomplishments this past fiscal year included our continued educational efforts and awareness of cyber security protocols. In this area, the TRSL worked with a third-party vendor to develop a model for ongoing staff training on cyber security awareness and data protection related to ensuring member data stays safe.

We also launched a new member service called *TRSL in Your Neighborhood*, in which we set up a temporary "satellite office" outside the Baton Rouge area over the course of several days to provide one-on-one member counseling. Members within two years of retirement or DROP eligibility are invited to schedule a 30-minute counseling session where they receive a benefit estimate and the opportunity to talk face-to-face with a TRSL staff member without having to travel to the TRSL office in Baton Rouge. We conducted our first counseling sessions in

the Lake Charles area, and the response was overwhelmingly positive. Going forward, TRSL will continue with this event in other areas of the state.

Operationally, we updated our weekly automated testing of death files from the state Department of Health and Hospitals to include the identification of deceased beneficiaries. By doing this, we can more quickly adjust the retirement benefits of retirees who chose to have those benefits increase upon the death of their named beneficiary.

On the legislative front, this year was a marathon, covering roughly four months. In addition to the regular session, the Legislature held three special sessions to address budget shortfalls. In the regular legislative session, lawmakers approved more changes to the state's return-to-work law. Collectively, Acts 492 and 613 expanded the criteria under which certain retirees can return to work under critical shortage or 25% earnings limit provisions. On page 7, you'll find more information about changes to the return-to-work provisions as well as other laws impacting TRSL that were enacted this year.

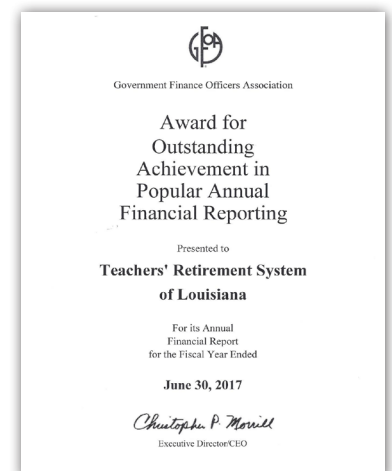
The TRSL Board of Trustees and I encourage you to review the information in this report. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles of the United States, and have been audited by an independent certified public accounting firm on behalf of the Louisiana Legislative Auditor's Office. More detailed information can be found in our *2018 Comprehensive Annual Financial Report* (CAFR), available at www.TRSL.org.

Sincerely,



Dana L. Vicknair
TRSL Director

*For the last 16 years,
the Government Finance
Officers Association
of the United States
and Canada (GFOA)
has recognized TRSL
for preparation of its
summary annual report.*



FINANCIAL INFORMATION

The chart immediately below shows TRSL's assets and liabilities over the past three years, as well as the net assets held in trust. The second chart below details the additions to and deductions from the plan net assets for the same three-year period.

Condensed Comparative Statements of Fiduciary Net Position

	2018	2017	2016
Assets			
Cash and cash equivalents	\$ 277,091,189	\$ 216,603,032	\$ 5,279,450
Receivables	2,557,576,110	2,418,120,216	1,679,296,945
Investments (fair value)	21,149,602,929	19,469,595,134	17,658,310,565
Securities lending collateral	3,266,109,201	2,484,644,788	2,553,584,462
Property and equipment, at cost (net)	<u>3,402,044</u>	<u>3,430,912</u>	<u>3,710,875</u>
Total assets	<u>27,253,781,473</u>	<u>24,592,394,082</u>	<u>21,900,182,297</u>
Deferred outflows of resources	<u>3,024,033</u>	<u>4,095,824</u>	<u>2,395,528</u>
Liabilities			
Accounts payable and other liabilities	2,941,945,310	2,598,187,043	1,810,828,801
Securities lending collateral	<u>3,266,109,201</u>	<u>2,484,644,788</u>	<u>2,553,584,462</u>
Total liabilities	<u>6,208,054,511</u>	<u>5,082,831,831</u>	<u>4,364,413,263</u>
Deferred inflows of resources	<u>2,048,830</u>	<u>312,400</u>	<u>213,607</u>
Net position restricted for pensions	<u>\$ 21,046,702,165</u>	<u>\$ 19,513,345,675</u>	<u>\$ 17,537,950,955</u>

Condensed Comparative Statements of Changes in Fiduciary Net Position

	2018	2017	2016
Additions			
Member contributions	\$ 337,928,752	\$ 328,541,240	\$ 330,773,315
Employer contributions	1,201,829,353	1,122,277,562	1,157,901,123
Non-employer contributions	39,550,321	38,762,968	38,193,328
LSU Co-Operative Extension	1,873,303	1,754,855	1,830,995
Other operating revenues	11,411,104	2,972,517	2,951,433
Net investment income	<u>2,137,872,033</u>	<u>2,612,535,238</u>	<u>177,640,776</u>
Total additions	<u>3,730,464,866</u>	<u>4,106,844,380</u>	<u>1,709,290,970</u>
Deductions			
Benefits, refunds, and other	2,180,642,976	2,114,653,462	2,050,906,604
LSU Co-Operative Extension	2,017,909	1,995,075	1,873,303
Administrative expenses	14,046,725	14,368,885	14,532,681
Depreciation expense	<u>400,766</u>	<u>432,238</u>	<u>407,105</u>
Total deductions	<u>2,197,108,376</u>	<u>2,131,449,660</u>	<u>2,067,719,693</u>
Net increase (decrease)	<u>1,533,356,490</u>	<u>1,975,394,720</u>	<u>(358,428,723)</u>
Net position restricted for pensions beginning of year	<u>19,513,345,675</u>	<u>17,537,950,955</u>	<u>17,896,379,678</u>
Net position restricted for pensions end of year	<u>\$ 21,046,702,165</u>	<u>\$ 19,513,345,675</u>	<u>\$ 17,537,950,955</u>

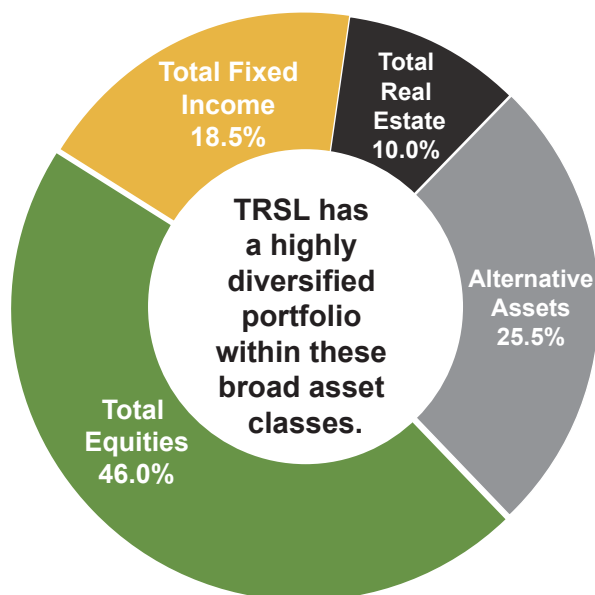
INVESTMENT INFORMATION

TRSL, like any investor, seeks to maximize returns and minimize risk over the long run. To achieve this, the System continuously monitors and adjusts its mix of investment assets, creating an efficient and diversified portfolio.

As a long-term institutional investor, TRSL spreads its investments across a variety of asset classes, including stocks, bonds, real estate, and private equity, to manage the impact of changing market conditions.

Over the past seven-year period, TRSL's investments sustained annualized returns of 9.37% (gross of fees). When compared to other public plans with assets greater than \$1 billion, the System is in the first percentile, according to the Wilshire Trust Universe Comparison Service (TUCS).

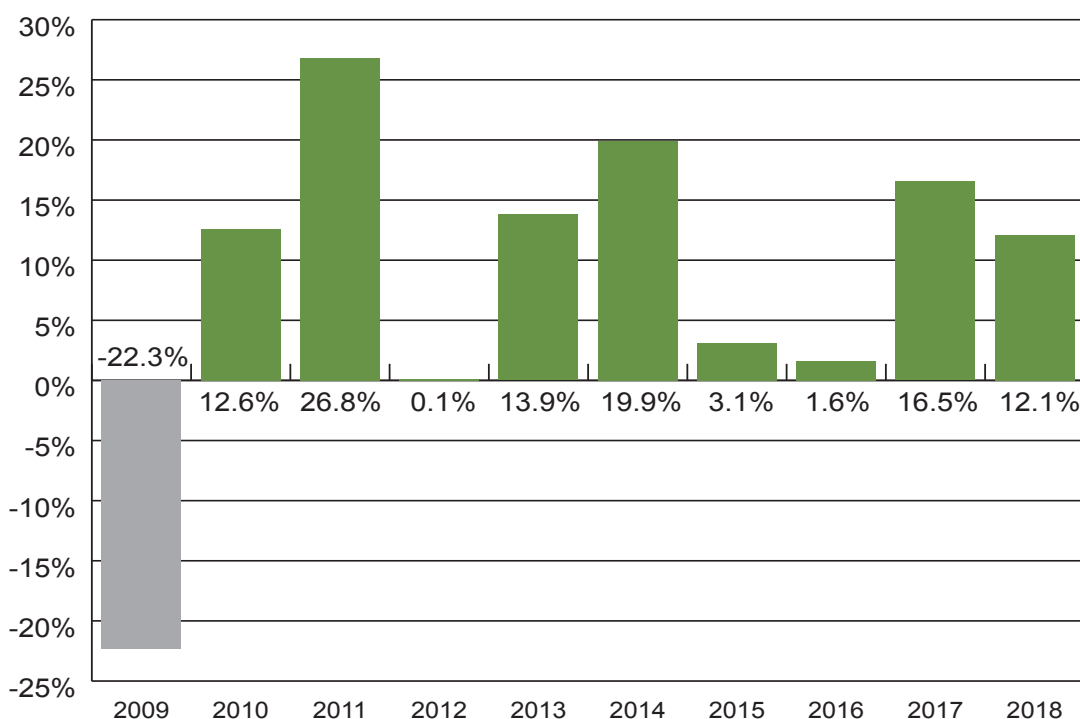
Target Asset Allocation



Investments at Fair Value

	2018	2017	2016
Short-term investments	\$ 1,076,810,833	\$ 1,034,891,991	\$ 1,307,428,499
Domestic bonds	2,371,403,311	1,913,773,495	1,828,132,715
International bonds	1,278,291,190	1,568,570,862	1,413,994,202
Domestic stocks	6,321,369,477	5,927,969,405	5,161,381,152
International stocks	3,635,793,802	3,465,254,946	3,166,197,700
Alternative investments	<u>6,465,934,316</u>	<u>5,559,134,435</u>	<u>4,781,176,297</u>
Total investments	\$ 21,149,602,929	\$ 19,469,595,134	\$ 17,658,310,565

10-Year Rates of Return (gross of fees)



ACTUARIAL INFORMATION

Funding retirements is a long-term process that requires projecting how much it will take to pay benefits years into the future. To do this, TRSL's actuary calculates its long-term liabilities, which takes into account many assumptions of future events, including mortality and disability rates, salary increases, and termination and retirement rates. All of these assumptions are based upon TRSL's past experience and help project future funding needs.

The actuary also calculates the actuarial value of the System's assets. Actuarial value and market value are different. Market value is based on what assets could be sold for on a specific date, which can change daily. To meet its long-term funding obligations, the System needs a reliable way to estimate its assets and liabilities that is not tied to day-to-day market fluctuations.

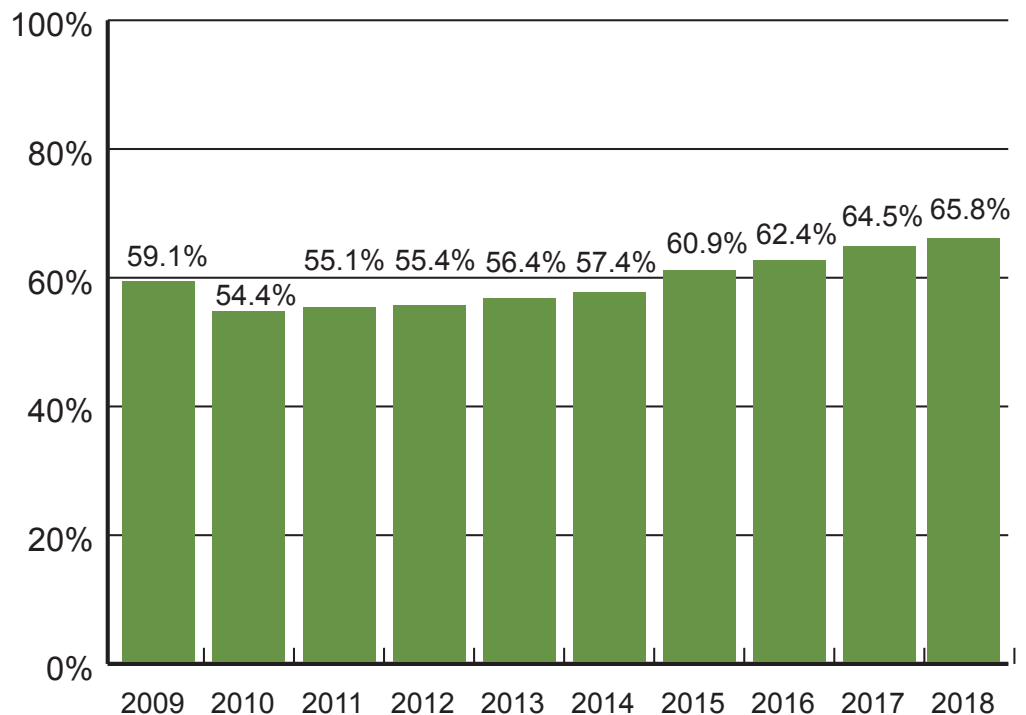
The actuarial value of assets is based on a technique that "smoothes" short-term market gains and losses over a five-year period. While it approximates market value, the actuarial value removes much of the volatility global markets experience by incrementally recognizing market highs and lows over the course of five years. Using the actuarial value, TRSL can better meet long-term funding needs.

As of June 30, 2018, the System's actuarial value of assets was \$20.3 billion, up from \$19.2 billion in the previous fiscal year. TRSL's actuarial funded ratio increased to 65.8% in FY 2018 from 64.5% in FY 2017. The actuarial funded ratio of 65.8% means that TRSL has 65.8 cents to cover the present value of every dollar expected to be paid in future retirement benefits.

Summary of Actuarial Valuation

	2018	2017	2016
Membership census			
Retirees	78,423	77,258	75,828
Active	85,045	84,228	84,068
DROP	2,420	2,478	2,504
Terminated vested	7,211	6,941	6,687
Actuarial investment return	9.5%	9.2%	6.7%
Actuarial funded ratio	65.8%	64.5%	62.4%
Annual benefits paid	\$ 2,118,971,446	\$ 2,063,449,370	\$ 2,001,145,698

Funded Ratio (2009 - 2018)



REVENUES AND EXPENSES

Revenues

The TRSL defined benefit retirement plan is funded by investment earnings and contributions from members and employers. The System pools and invests member and employer contributions, and retirement benefits are paid from TRSL investment earnings. The retirement system provides retirees with a lifetime monthly benefit based on length of service, final average compensation, and a benefit accrual factor.

Some employees in higher education choose to participate in the Optional Retirement Plan (ORP), a defined contribution plan similar to a 401(k) account. These accounts are credited with employee contributions (less a 0.05% administrative fee) and employer "normal cost" contributions. The UAL portion of the employer contribution is reflected in the *Employer* column of the *Revenues by Source* table below.

Income from miscellaneous receipts related to operation of the pension plan, such as litigation settlements and processing fees, is listed in the table below as *Other Operating Revenues*.

Revenues by Source

Fiscal Year	Member	Employer	Non-Employer*	Acts of the Legislature	Net Investment Income	Other Operating Revenues	Total
2015-2016	\$ 330,773,315	\$ 1,157,901,123	\$ 40,024,323	—	\$ 177,640,776	\$ 2,951,433	\$ 1,709,290,970
2016-2017	328,541,240	1,122,277,562	40,517,823	—	2,612,535,238	2,972,517	4,106,844,380
2017-2018	337,928,752	1,201,829,353	41,423,624	\$ 8,585,163†	2,137,872,033	2,825,941	3,730,464,866

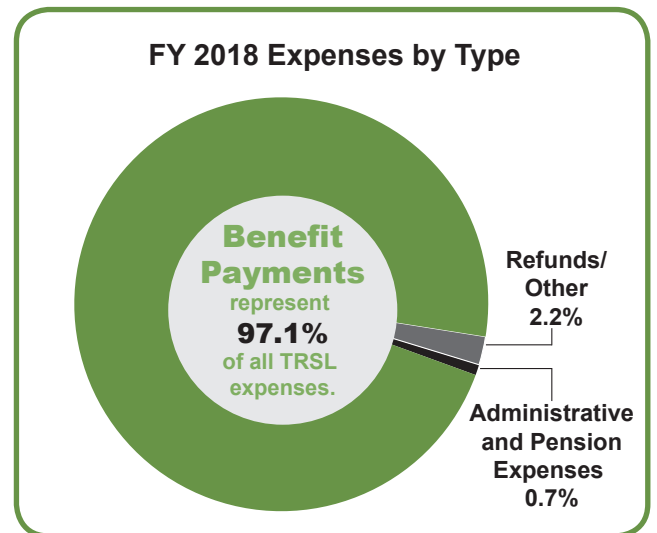
*Refers to the sheriff tax collections and LSU Co-Op Extension.

†Act 59 of 2018.

Expenses

In Fiscal Year 2018, TRSL paid \$2.2 billion in retirement benefits. These dollars provide a reliable monthly income to more than 78,000 retirees and beneficiaries, the majority of whom live in Louisiana.

As shown in the pie chart to the right, 97.1 cents of every dollar went toward benefit payments in Fiscal Year 2018. Administrative expenses account for less than one penny out of that same dollar. Furthermore, self-generated funds from investment earnings pay for administrative expenses.



Expenses by Type

Fiscal Year	Benefits*	Pension Expense	Refunds/Other	Administrative Expenses†	Depreciation Expense	Total
2015-2016	\$ 2,001,121,694	\$ 1,773,559	\$ 49,884,654	\$ 14,532,681	\$ 407,105	\$ 2,067,719,693
2016-2017	2,064,035,537	2,807,080	49,805,920	14,368,885	432,238	2,131,449,660
2017-2018	2,132,604,602	1,385,063	48,671,220	14,046,725	400,766	2,197,108,376

*Includes Other Post-Employment Benefits (OPEB) expense and LSU Co-Op Extension.

†Investment administrative expenses are excluded from this total in accordance with GASB 67.

SUMMARY OF FISCAL YEAR 2018 LEGISLATION

Return to work

- **Act 613** (*Rep. Miller*) adds *presenter of professional development training and tutor for any PreK-12 student* to the list of "re-employment eligible positions" allowing retirees to return to work and continue to receive a benefit payment after the required waiting period, subject to a 25% earnings limit; clarifies that "classroom teachers" can be re-employed in a temporary capacity to proctor tests, also subject to the waiting period and 25% earnings limit. Act 613 also adds *full- or part-time PreK teachers* to the list of retirees eligible to return to work in critical shortage situations as outlined below in Act 492.
- **Act 492** (*Rep. Smith*) adds *full-time interpreter, educational transliterator, or educator of the deaf or hard of hearing* and *full- or part-time PreK teachers* to the list of "re-employment eligible critical shortage positions" allowing retirees to return to work without a reduction of benefits, after the required waiting period and certification of shortage by the employer.

Investments

- **Act 45** (*Rep. Pearson*) allows state and statewide retirement systems the option to allocate a portion of their investments to a terror-free fund rather than a terror-free index fund as previously required by law.

Board actuary duties

- **Act 347** (*Sen. Peacock*) restricts the duties of board-appointed actuaries to actuarial matters and reaffirms the ability of state and statewide retirement systems to appoint independent actuaries.

Membership

- **Act 342** (*Sen. Peacock*) prohibits a TRSL member with at least five years of TRSL service credit from retaining membership in TRSL if they move to a position covered by the Clerks' of Court Retirement and Relief Fund.

Public Retirement Systems' Actuarial Committee (PRSAC)

- **Act 399** (*Sen. Peacock*) removes the Public Retirement Systems' Actuarial Committee (PRSAC) from the state Department of Treasury and restricts chair and vice-chair duties on PRSAC to the Senate President and House Speaker or their designees.

Military service credit

- **Act 225** (*Sen. Peacock*) creates consistency among state and statewide retirement systems in the application of state and federal law related to military service credit purchases.

Senate Resolution 248 (*Sen. Morrish*) requests the State Board of Elementary and Secondary Education (BESE) to explain how the minimum foundation program (MFP) is calculated to ensure funding of the unfunded accrued liability (UAL).





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FOR FISCAL YEARS ENDED JUNE 30, 2018 & 2017

A COMPONENT UNIT OF THE STATE OF LOUISIANA

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No appointment required

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TRSL is an equal opportunity employer and complies with the Americans with Disabilities Act.
