



2020 Popular Annual Financial Report

for fiscal years ended June 30, 2020 and 2019

A component unit of the State of Louisiana

Message from the Director

Dear TRSL Members and Benefit Recipients:

It is my privilege to present the *2020 Popular Annual Financial Report (PAFR)* for the Teachers' Retirement System of Louisiana (TRSL). This report is a summary of the System's financial position and investment performance for the fiscal year ended June 30, 2020. The information in this publication represents the combined efforts of the TRSL staff and its advisors.

At TRSL, our vision is "retirement security in a changing world," and this year was certainly a changed world. The COVID-19 pandemic touched every aspect of life for us all. With a stay-at-home order declared in March by Gov. John Bel Edwards, we had to quickly transition our staff to a remote workforce, providing member services through non-contact means—phone, fax, email, and web conferencing. I am pleased to report that, throughout the worst of COVID-19, the business of TRSL continued without interruption, including the processing of retirement applications and payment of retiree benefits.

In more good news, we ended the fiscal year in a solid financial position. At \$21.2 billion, our market value of assets has remained above the \$21 billion mark for the last three years, and the plan's actuarial funded level rose to 67.9% from 67.1% in Fiscal Year 2019. The unfunded accrued liability (UAL) decreased to \$10.36 billion from \$10.39 billion last fiscal year. Furthermore, principal and interest on this debt has now been paid for the eighth consecutive year, and we remain on pace to meet the System's statutorily required payoff dates.

Still, we were operating in challenging market conditions this year. Our investment portfolio withstood significant swings in the financial markets, particularly with emergence of COVID-19. In the end, though, TRSL earned a 1.4% return on its investments (gross of fees). And, over the longer term, the System has performed better than most of its peers, ranking in the top (best) 13th percent of public pension funds with assets greater than \$1 billion for the 20-year period, according to the Wilshire Trust Universe Comparison Service (TUCS).

In spite of all this year's uncertainties, our staff remained resolute in their efforts to administer the retirement plan responsibly, provide excellent service to our members, and maintain the highest standards of accountability to the citizens of Louisiana. We are all proud of that.

Legislatively, two laws and four resolutions affecting TRSL emerged from the 2020 Regular Session, which was shortened one month because of COVID-19. Lawmakers passed Act 337, which again changed the state's return-to-work provisions for teachers, and Act 255 that makes a \$36.7 million supplemental appropriation to the TRSL initial unfunded accrued liability (IUAL) from a portion of the FY 2018-19 surplus funds in the state treasury.

Two resolutions (SR 15 and HR 21) request that the state's four public retirement systems report on alternative methods of funding retiree cost-of-living adjustments; the other two resolutions (SCR 34 and HCR 9) request that Congress eliminate or reduce offsets that impact the Social Security

benefits of TRSL retirees who earned those benefits through other Social Security-covered employment or are eligible for them through a spouse's employment.

Finally, at TRSL, our culture revolves around looking for opportunities to improve operations, enhance services, and create efficiencies. This year was no exception—even as we coordinated a broad, yet flexible response to the complexities of serving our membership during the pandemic.

Our Information Technology (IT) and Retirement departments worked to expand the array of self-service options available through TRSL's secure online Member Access. Members can now view their retirement status in real-time once they have submitted retirement applications and/or termination of employment forms. The IT department also quickly configured and distributed more than 100 laptops so staff could work from home during the pandemic. And, we ramped up our use of web conferencing technology, which gave members the opportunity to receive virtual retirement counseling as well as enabled staff to stay in touch through online staff meetings.

Despite the highly unusual year and the many unplanned adjustments to System operations prompted by COVID-19, we were able to continue providing the high-level of service all of our stakeholders have come to expect from the agency.

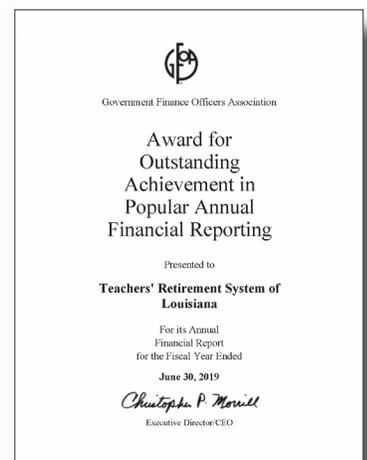
The TRSL Board of Trustees and I encourage you to review the information in this report. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles of the United States, and have been audited by an independent certified public accounting firm on behalf of the Louisiana Legislative Auditor's Office. More detailed information can be found in our *2020 Comprehensive Annual Financial Report (CAFR)*, available at www.TRSL.org.

Sincerely,



Dana L. Vicknair
TRSL Director

*For the last 18 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

TRSL ended Fiscal Year 2020 with \$21.2 billion in net assets. 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

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 239,806,968	\$ 196,030,213	\$ 277,091,189
Receivables	2,394,206,675	2,732,561,096	2,557,576,110
Investments (fair value)	21,315,227,038	21,716,552,473	21,149,602,929
Securities lending collateral	2,135,108,608	3,034,732,743	3,266,109,201
Property and equipment, at cost (net)	<u>3,582,220</u>	<u>3,738,196</u>	<u>3,402,044</u>
Total assets	<u>26,087,931,509</u>	<u>27,683,614,721</u>	<u>27,253,781,473</u>
Deferred outflows of resources	<u>3,940,599</u>	<u>3,237,790</u>	<u>3,024,033</u>
Liabilities			
Accounts payable and other liabilities	2,731,400,959	2,996,452,942	2,941,945,310
Securities lending collateral	<u>2,135,108,608</u>	<u>3,034,732,743</u>	<u>3,266,109,201</u>
Total liabilities	<u>4,866,509,567</u>	<u>6,031,185,685</u>	<u>6,208,054,511</u>
Deferred inflows of resources	<u>4,776,539</u>	<u>3,184,454</u>	<u>2,048,830</u>
Net position restricted for pensions	<u>\$ 21,220,586,002</u>	<u>\$ 21,652,482,372</u>	<u>\$ 21,046,702,165</u>

Condensed Comparative Statements of Changes in Fiduciary Net Position

	2020	2019	2018
Additions			
Member contributions	\$ 351,287,976	\$ 341,398,896	\$ 337,928,752
Employer contributions	1,222,809,469	1,217,167,321	1,201,829,353
Non-employer contributions	43,151,074	40,850,075	39,550,321
LSU Co-Operative Extension*	2,017,909	1,995,075	1,873,303
Other operating revenues	39,770,865	26,018,466	11,411,104
Net investment income	<u>171,029,364</u>	<u>1,209,230,839</u>	<u>2,137,872,033</u>
Total additions	<u>1,830,066,657</u>	<u>2,836,660,672</u>	<u>3,730,464,866</u>
Deductions			
Benefits, refunds, and other	2,245,134,690	2,214,961,707	2,180,642,976
LSU Co-Operative Extension*	1,987,638	2,075,869	2,017,909
Administrative expenses	14,418,014	13,445,962	14,046,725
Depreciation expense	<u>422,685</u>	<u>396,927</u>	<u>400,766</u>
Total deductions	<u>2,261,963,027</u>	<u>2,230,880,465</u>	<u>2,197,108,376</u>
Net increase (decrease)	<u>(431,896,370)</u>	<u>605,780,207</u>	<u>1,533,356,490</u>
Net position restricted for pensions beginning of year	<u>21,652,482,372</u>	<u>21,046,702,165</u>	<u>19,513,345,675</u>
Net position restricted for pensions end of year	<u>\$21,220,586,002</u>	<u>\$ 21,652,482,372</u>	<u>\$ 21,046,702,165</u>

* LSU Co-Operative Extension: Supplemental benefits administered by TRSL for members of the Louisiana State University Agriculture and Extension Service who hold membership in the United States Civil Service Retirement System.

Investment Information

Investors seek a highly diversified portfolio to help maximize returns and minimize risk over the long term. TRSL continuously monitors and adjusts its mix of investment assets to create 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 assets, to manage the impact of changing market conditions.

Over the past ten-year period, TRSL's investments sustained annualized returns of 9.9%. When compared to other public plans with assets greater than \$1 billion, the System is in the fifth percentile, according to the Wilshire Trust Universe Comparison Service (TUCS).

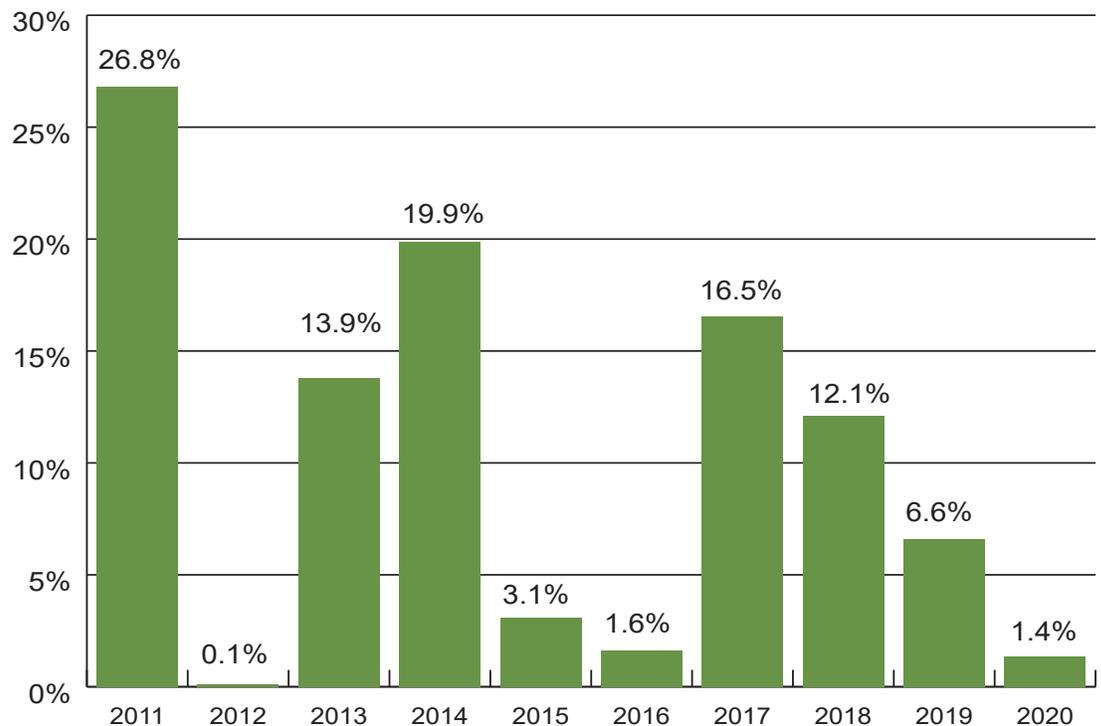
Target Asset Allocation



Investments at Fair Value

	2020	2019	2018
Short-term investments	\$ 869,649,602	\$ 905,937,551	\$ 1,076,810,833
Global debt securities	3,579,000,757	3,741,321,218	3,649,694,501
Global equities	9,140,896,138	9,850,015,432	9,957,163,279
Private assets	5,806,264,305	5,407,829,743	4,785,375,894
Real estate	<u>1,919,416,236</u>	<u>1,811,448,529</u>	<u>1,680,558,422</u>
Total investments	<u>\$ 21,315,227,038</u>	<u>\$ 21,716,552,473</u>	<u>\$ 21,149,602,929</u>

10-Year Rates of Return (gross of fees)



Actuarial Information

To fund retirements, TRSL must project how much it will take to pay benefits years into the future. To do this, the TRSL actuary calculates the System's long-term liabilities, taking into account many assumptions of future events, including mortality and disability rates, salary increases, and termination and retirement rates. 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. Actuarial value is based on a technique that "smooths" 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.

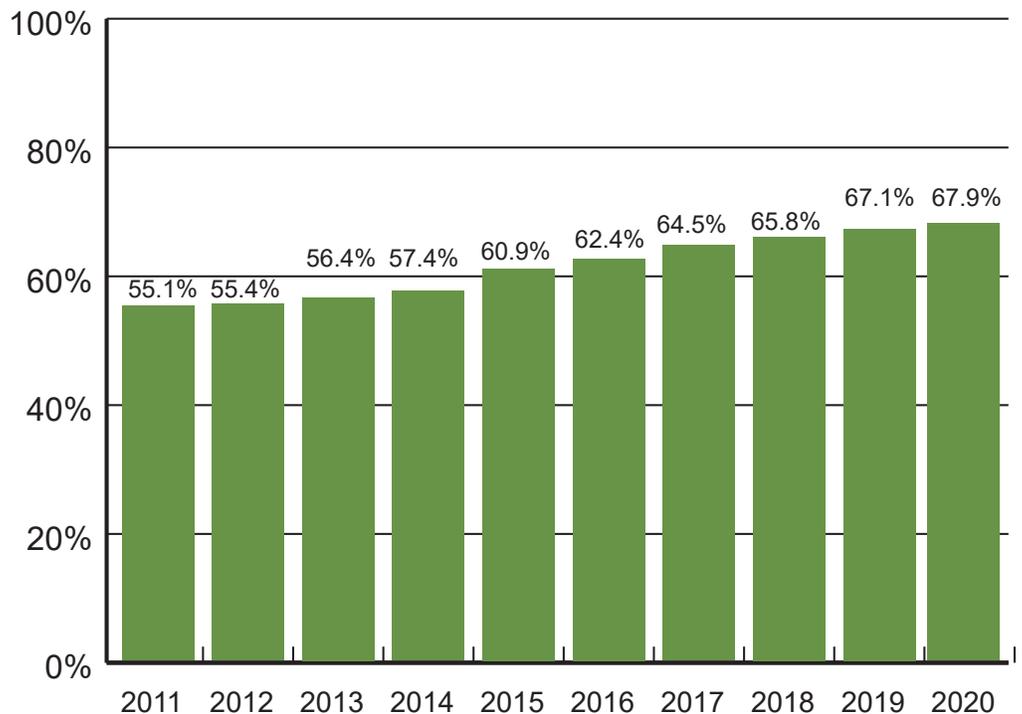
Using the actuarial value provides a reliable way to estimate the System's assets and liabilities that is not tied to day-to-day market fluctuations and helps TRSL better meet its long-term funding needs.

As of June 30, 2020, the System's actuarial value of assets was \$21.9 billion, up from \$21.2 billion in the previous fiscal year. TRSL's actuarial funded ratio increased to 67.9% in FY 2020 from 67.1% in FY 2019. The actuarial funded ratio of 67.9% means that TRSL has 67.9 cents to cover the present value of every dollar expected to be paid in future retirement benefits.

Summary of Actuarial Valuation

	2020	2019	2018
Membership census			
Retirees	80,536	79,647	78,423
Active	86,860	85,998	85,045
DROP	2,359	2,462	2,420
Terminated vested	7,992	7,574	7,211
Actuarial investment return	6.8%	7.5%	9.5%
Actuarial funded ratio	67.9%	67.1%	65.8%
Annual benefits paid	\$ 2,195,861,109	\$ 2,165,760,383	\$ 2,118,971,446

Funded Ratio (2011 - 2020)



Revenues and Expenses

Revenues

The TRSL defined benefit retirement plan is funded by (1) contributions from members, (2) contributions from employers, and (3) investment earnings. The System 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 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*	Appropriations Acts	Net Investment Income	Other Operating Revenues	Total
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
2018-2019	341,398,896	1,217,167,321	42,845,150	21,327,137 [‡]	1,209,230,839	4,691,329	2,836,660,672
2019-2020	351,287,976	1,222,809,469	45,168,983	36,789,397 [§]	171,029,364	2,981,468	1,830,066,657

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

[†]Act 59 of 2018.

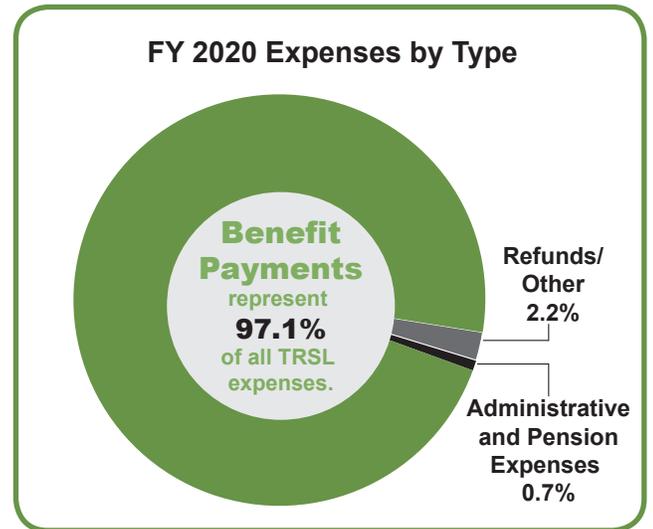
[‡]Act 50 of 2019.

[§]Act 255 of 2020.

Expenses

In Fiscal Year 2020, TRSL paid \$2.2 billion in retirement benefits. These dollars provide a reliable monthly income to more than 80,500 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 2020. Administrative expenses account for less than one penny out of that same dollar.



Expenses by Type

Fiscal Year	Benefits*	Pension Expense	Refunds/Other	Administrative Expenses [†]	Depreciation Expense	Total
2017-2018	\$ 2,132,604,602	\$ 1,385,063	\$ 48,671,220	\$ 14,046,725	\$ 400,766	\$ 2,197,108,376
2018-2019	2,165,855,657	880,211	50,301,708	13,445,962	396,927	2,230,880,465
2019-2020	2,195,320,939	1,576,153	50,225,236	14,418,014	422,685	2,261,963,027

*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 2020 Legislation

Return to work

Act 337 (*Rep. Bourriaque*) creates a new tier of return-to-work provisions for retirees who return to work for a TRSL-reporting employer for the first time on or after July 1, 2020.

Supplemental appropriation to UAL

Act 255 (*Rep. Zeringue*) makes a \$36.7 million supplemental appropriation to the TRSL initial unfunded accrued liability (IUAL) from a portion of the FY 2018-19 surplus funds in the state treasury, as required by the Louisiana Constitution.

Social Security offset request

House Concurrent Resolution 9 (*Rep. M. Johnson*) requests that Congress consider eliminating the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) Social Security benefit reductions.

Senate Concurrent Resolution 34 (*Sen. Mizell*) requests that Congress consider eliminating the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) Social Security benefit reductions.

Permanent benefit increase report request

Senate Resolution 15 (*Sen. Price*) requests the four state retirement systems work together to report to the legislature on alternative methods for providing permanent benefit increases to retirees in future years.

House Resolution 21 (*Rep. Harris*) requests the four state retirement systems work together to report to the legislature on alternative methods for providing permanent benefit increases to retirees in future years.



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Dana L. Vicknair, Director

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