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Advisory Group on Civil Service and Employee Benefits

Minutes of Meeting
Tuesday,
August 25, 2009
ADOPTED, October 20, 2009

I. CALL TO ORDER

A meeting of the Advisory Group on Civil Service and Employee Benefits was held on Tuesday, August 25, 2009, in Committee Room E at the State Capitol in Baton Rouge, Louisiana. The chairman, Representative Jim Morris, called the meeting to order at 9:00 a.m.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT:	**MEMBERS ABSENT:**
Representative Jim Morris, Chairman	
Representative Mike Danahay	None
Lansing Kolb	
Elizabeth Murrill	

STAFF PRESENT:	**STAFF ABSENT:**
Laura Gail Sullivan, Coordinator	
Ann Brown, Analyst	Camille Pampell Conaway, Governor's Office Policy Adviser
Michelle Pickering, Secretary	
Evelyn McWilliams, Fiscal Analyst	Glark Gradney, Budget Analyst
Karen LeBlanc, Senior Auditor	

III. WITNESSES:

SOCIAL SECURITY

Linda Yelverton, State Treasurer's Office, Baton Rouge, Louisiana
Angela Dowdy, State Treasurer's Office, Baton Rouge, Louisiana

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

Cindy Rougeou, Louisiana State Employees' Retirement System, 8401 United Plaza Blvd., Baton Rouge, Louisiana 70809
Suzanne Adams, Louisiana State Employees' Retirement System, Baton Rouge, Louisiana

TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

Maureen Westgard, Teachers' Retirement, 8401 United Plaza, Baton Rouge, Louisiana 70809
Shelley Johnson, LASERS & TRSL, 18645 Antebellum Court, Prairieville, Louisiana 70769
Dana Vicknair, Teachers' Retirement, 8401 United Plaza, Baton Rouge, Louisiana 70809

LOUISIANA STATE POLICE PENSION AND RETIREMENT SYSTEM

Irwin L. Felps, Jr., Director, Louisiana State Police Retirement, 3100 Brentwood Drive, Baton Rouge, Louisiana 70809
Kim Gann, Assistant Director, Louisiana State Police Retirement, 3100 Brentwood Drive, Baton Rouge, Louisiana 70809
Charles G. Hall, State Police State Employees, Teachers & School Employees, Baton Rouge, Louisiana

OFFICE OF GROUP BENEFITS

Tommy Teague, Office of Group Benefits, Post Office Box 44036, Baton Rouge, Louisiana 70804
Malcolm Veazie, Deputy Assistant Secretary, Office of Group Benefits, Baton Rouge, Louisiana
Thomas Benoit, Deputy Assistant Secretary, Office of Group Benefits, Baton Rouge, Louisiana

LOUISIANA DEFERRED COMPENSATION PLAN

Chris Burton, Great West Retirement Services, 2237 South Acadian Thruway, Baton Rouge, Louisiana 70808

LOUISIANA DEPARTMENT OF STATE CIVIL SERVICE

Shannon Templet, Department of State Civil Service, Post Office Box 94111, Baton Rouge, Louisiana 70804
Jean Jones, Department State Civil Service, Post Office Box 94111, Baton Rouge, Louisiana 70804
Robert Boland, Department of State Civil Service, Post Office Box 94111, Baton Rouge, Louisiana 70804

IV. PRESENTATION ON EMPLOYEE BENEFITS

Representative Jim Morris stated that this was the Advisory Group on Civil Service Employee Benefits and asked that all cell phones either be turned off or silenced. He informed the members that their folders contained a set of the minutes from the last meeting and asked them to look over the minutes and to change anything that would warrant being changed so they could be approved at the next meeting. He said that the meeting today was basically going to be just about the benefits for employees. He told the group and audience that the members were not there today to hear or discuss any changes to any of the systems. He said that what they were going to be looking for was basically information relative to each system as they are today. The meeting today was for informational purposes only.

Laura Gail Sullivan informed the members that their folders also contained copies of the handouts that the speakers were going to go over. In addition to that, there were three handouts that she had placed in each folder. One was a rough sketch that compared two different LASERS benefit schemes to the Teachers' benefit scheme. You will hear from two different speakers about LASERS and then about Teachers' and that table is for you to sort of have a comparison of the two in case you are interested in how they stack up against each other. There is also an actuarial note from a bill known as Act 75 that is going to be addressed in the LASERS presentation and the purpose of the actuarial note is to show the projected savings from the reduction in employee benefits that Act 75 represented. The third sheet is from the legislative auditor's actuarial report that is an actuarial calculation of how much of an employee's benefit the employee funds on his own as an actuarial projection. You will see some numbers from LASERS based on actual experience, current retirees, and how much each special group and sub-plan pays of their own benefits. That will be more fully covered within the presentation. She thought that the three handouts would enable the members to make some informational assessments of the information that was going to be presented by the systems.

Representative Jim Morris called on social security to go first and asked that they state their names and addresses for the record.

Linda Yelverton, Social Security Division, Social Security Program Director, State Treasurer's Office. She introduced her assistant Angie Dowdy who was the social security program analyst, which was a position created by John Kennedy so that she could be trained to take over as the program director. She started her presentation by saying that on September 1st she will have been working solely with section 218 social security coverage for 38 years. She continued the presentation by reminding the members that this presentation was only on section 218 coverage for state employees, because that was what they said they were here to discuss today. She said that John Kennedy was the actual state administrator in Louisiana. Every state in the nation has a state official who is the designated state administrator for their state. It is in statute. Our statutes, which are listed on the power point (handout), she thought, are the cleanest statutes in the nation, because they say exactly what we do. The state administrator maintains the section 218 agreement that governs voluntary social security and medicare coverage for state and local government in Louisiana. The discussion today is on state employees, but I deal with school boards, police juries all the way down to water works districts. The position of the state administrator actually conducts referenda when those employees want to pay social security or medicare coverage and they are covered by a retirement system. Under section 218 the state of Louisiana agreed to pay social security on employees not in positions not covered by a retirement system. When social security was created in 1965 it completely eliminated state workers. They took it for granted that we had a retirement system and they felt that they didn't have the right to tax the state government. So state and local workers and federal workers were completely left out, they paid no social security at all. In the 50's that section of the law was amended with section 218 to allow states to voluntarily cover their employees with social security if they wished to. At that point, that is where they said that we had to create a state administrator in every state to administer that section 218 coverage. In Louisiana the majority of our state workers do not pay social security and that is what I am here to reiterate, we do not pay social security. We pay into retirement systems, either LASERS or Teachers', in most cases, or state police, but we do not pay social security. With every law there are exceptions. The exceptions to this one are part time, seasonal and temporary workers and that is because those positions are so volatile and they can move around and social security is portable. So part time, seasonal, and temporary workers do not pay social security and certain employees have an option to join the retirement system. It is according to their age. If they are between 55 and 60 in LASERS and they have 40 credits in social security or if they come to work at age 60, we do not force them to go into retirement because they have to have 10 years in LASERS to get a benefit. So those people are optional in the retirement system and they can actually choose deferred comp if they wish to. But, they are the minority. The majority of state workers are in retirement systems, and that is all they have is retirement. And I reiterate, employees in positions ineligible for membership in a state retirement system pay social security. Employees who are personally ineligible, for whatever reason, to join a retirement system pay social security and other employees are optional and that is under our section 218 agreement where we agreed to do it - to pay social security. But in Louisiana, we only wanted to pay social security on the people not in a retirement system. We are one of seven states where the majority of our workers do not pay social security. In every state in the union there are some workers who do not pay social security. Usually it is firemen, policemen, and teachers. That is because working to 65 in those positions is usually, or 67 as it now is in some cases, not a viable thing for those people to do. So those are the ones that do not pay social security in some states. In some states everybody pays both as a condition of employment. In 1990 Congress mandated social security withholding effective July 1, 1991, but they only mandated for it employees not participating in a public retirement system. Again, they recognize the fact that we set up our retirement systems, both Teachers' and LASERS, in the 30's. We wanted our employees to have retirement systems with a benefit that they could draw a lot earlier than 65, and in our case much higher than we would ever get from social security. . . 1990 was the mandatory social security - if states had actually covered their employees under section 218 with social security, that coverage stayed in effect even though they were in the retirement systems. Mandatory medicare went into effect in 1986, which was prior to the mandatory social security, and what mandatory medicare did - it said that all employees hired, re-hired, or elected after March 31, 1986, had to pay the medicare tax. The medicare tax is only 1.45% of their salary for employee and employer. And that was so that down the road those could be retirees with medicare. At the same time, they allowed us to hold referendums to cover those people who were hired before that date. In Louisiana the majority of state workers do pay the medicare tax. Again, like any other law, there are exceptions, the exceptions are those employees that were hired prior to April 1, 1986, who did not vote "yes" in our medicare only referendum. Louisiana got federal law changed to allow us to conduct what is called "divided vote referendums" where we gave employees the individual choice to pay medicare. We conducted a medicare only referendum, ironically it was September 1st through the 15th of 2005, the same time that Katrina had hit. So it was extended. There were 10,634 state employees at that time who were hired before April 1, 1986, and they were not paying medicare. I knew that down the road that we were looking at a lot of retirees who would be retirees without medicare and if we gave them the option, they might vote to pay medicare to have that medicare coverage. Eighteen hundred fifty two (1,852) of those employees, state employees, voted "yes" and 1,852 of them now pay medicare tax working toward getting their credit so that they can be retirees with medicare instead of retirees without. The 8,782 that voted "no" in many cases they qualified for medicare on a spouse's record or they had their 40 credits or they weren't going to work long enough to get them, so they voted "no". Just for the record, because it's to me an accomplishment, I also conducted medicare only referendum at 38 parish school boards so far and there were 961 people across the state at parish school boards who voted "yes" for medicare and are working toward the same thing, being retirees with medicare down the road which will help with our expenses later on.

Medicare eligibility. State employees are eligible for Medicare at age 65 with Part A premium free if they qualify on their record or the record of a spouse, ex-spouse, or deceased spouse. To qualify on their own record, they need 40 credits or 10 years. So for those people who voted "yes" back in 2005 and began paying it, they have to get 10 years in. They have to get four credits in each year and have 10 years worth of coverage. Ninety nine percent (99%) of the individuals across the nation do not pay a premium for Part A of medicare. They get it for free because they have paid the medicare tax. They paid social security. The 1% of individuals who are 65 and over and do not meet those requirements, a good majority of those are in states like Louisiana where we did not pay social security and we don't qualify for Medicare at 65 without paying a premium for Part A. Some state workers in this category choose to pay that premium or what I have found with some of the teachers in Orleans parish had terminated their group benefits after they had left Louisiana so they found themselves with no health coverage. So they had to go to medicare and say, but I want medicare and they said but you don't have 40 credits. You were a teacher, in their case at the school board for all those years. They can purchase Part A. Part A, if you have 40 credits it is 0, Part A if you have 30-39 it is $244.00 a month and if you have less than 30 credits, it is $443.00 a month. Everyone pays a premium for Part B medicare. So if you are a retiree and you are age 65 and you are at an agency or a municipality or policy jury where they drop you off at 65 and no longer cover you with insurance you pay $539.40 a month for medicare A and B if you apply for it timely. If you are late, there are surcharges on it. I just want to point that out because the state doesn't do that for state employees or for universities or school boards, but I have come across municipalities and police juries in this state that drop their retirees at 65 off of their insurance. She said that she thought it was a very scary thing for a person at that age to not be able to afford insurance.

Angie Dowdy stated that she wanted to discuss WEP (Windfall Elimination Provision) and GPO (Government Pension Offset). These are two provisions of the social security law that affect state employees that receive pensions from public retirement systems. These are what is considered non-covered by social security. They won't have paid both. First we are going to look at WEP and this is just a brief overview. Windfall Elimination Provision (WEP) it provides a reduced social security benefit for workers when any part of their government pension is based on work not covered by social security. In other words, they only contributed to a pension, a public pension, not to social security at the same time. It does not affect retirees first eligible for a government pension before 1986 or who have 30 years of substantial earnings under social security. The Government Pension Offset (GPO) - if a state employee receives a government pension based on work not covered by social security, their social security spouse's or widow(er)'s benefits will be reduced or offset by 2/3 of the amount of the non-covered government pension.

Now, who can get social security disability? A worker must have paid into social security for at least five of the last ten years. A spouse at age 62, at any age if caring for a child under 16 or disabled. Divorced spouses may qualify.

Laura Gail Sullivan commented going back to the WEP and the GPO and asked if they would address whether the full social security benefit could be offset or not under those two provisions.

Angie Dowdy responded the full social security benefit can be offset under those provisions. Well, it depends on - under both actually because WEP is regarding your own work record so - in other words, using herself as an example, she said, I am a state employee, but I have not been a state employee throughout my entire working career. I have 17 years in private industry. So I have 17 years of credits in social security. When I go to retire and they say - and they work up my benefit estimate - there are going to say OK and let's say that I retire from the state, I am receiving a public pension. Whatever my estimated benefit would be with social security will be offset by my public pension that I earned and they have a way that they calculate it and we brought some things that I can give to you. It is pretty in-depth and we don't ever attempt to calculate a benefit for anyone regarding social security or a public pension. Basically, they take the first 90% and then - it is like a three step thing for them to reduce your benefit, basically under WEP.

Linda Yelverton said that the Windfall Elimination Provision will reduce the benefit that you get from social security. It can not wipe it out completely. You will get part of the benefit under the WEP, under the Windfall Elimination Provision. The opposite is true under the Government Pension Offset because they are going to use 2/3 of the amount of your pension to offset your social security benefit. If 2/3 of the amount of your government pension is more than what you would have gotten from social security then you will get nothing. The only thing that you will get off of that spouses record is medicare at age 65.

Laura Gail Sullivan then commented so a teacher who is married to someone who works in the private sector and the teacher maybe briefly had some social security, when that teacher is ready to - and let's suppose that the teacher is a female and the spouse is male - so when she goes to draw her own social security, her teacher pension will offset some of her social security benefit, but not all of it?

Angie Dowdy answered "yes", but not all of it, on her own record.

Laura Gail Sullivan then commented but, she has been in a two-income household and retirement they're in a two-pension household based on her teacher pension and his social security.

Angie Dowdy responded "yes".

Laura Gail Sullivan then commented, but once he is deceased and she begins to draw on his record, she could be completely without any social security benefits because if 2/3 of her teacher benefit is equal to the retirement - the pension that she would get from social security, she would be living, then, on one income.

Angie Dowdy again responded "yes".

Linda Yelverton also responded on just one income, that is correct. She said they hear that all the time because they say, "my sister draws it off of her husband, why can't I draw off of mine?" Because your sister never worked. Well, then they will say, "well then maybe I should never have worked."

Rep. Mike Danahay stated that there was not a week that didn't go by that they didn't receive at least one or two of these calls at our office and questioned why. Why is that? If you have paid into both systems aren't you entitled to both benefits?

Linda Yelverton commented what social security explained is that if - say for instance - a couple a man and a woman both working at Exxon. They both pay into social security all their working career, when they retire and draw their social security benefit, they will each draw their own social security benefit. When one of them passes away, the other one will continue to draw their benefit - if one of them is higher they will go to the other benefit, but they have a dollar for dollar offset. They completely wipe out the other social security benefit in most cases. So they say that for a teacher to go to work and teach for 25 years and draw from a teachers' retirement system and then be able to retire and draw half of her spouse's social security when if she had worked and paid social security all those years, she would not have drawn anything off of his record.

Rep. Mike Danahay said that he could understand that possibly, but did not understand the GPO. He stated that if you, as an individual, have worked at both systems and paid into both systems through the years, why are you penalized?

Linda Yelverton responded that the WEP actually just reduces the amount that you get. It doesn't ever wipe it out. They say they have a weighted formula toward low wage earners and what they are doing is taking away the weight that the low wage earner would have drawn a higher benefit.

Rep. Mike Danahay stated that he knew of some cases that he had been involved in that there were people who were at poverty level, because of the penalty.

Linda Yelverton replied I agree. There are always provisions out there, Angie had brought some printouts on that. She said that there were provisions to do away with WEP and GPO, but thought that they probably would never do away with WEP and GPO completely, but they might modify it so that the first $1,000 or $1,500 of your pension is not used to offset it or reduce it.

Angie Dowdy also responded they could reduce the impact. But they probably will never repeal it totally, because social security is constantly keeping track of how much it would cost the social security system to repeal WEP and GPO.

Rep. Mike Danahay, asked if there was any reason why they did this to begin with other than a cost saving measure.

Angie Dowdy answered it was their attempt to keep things even. If you have two employees that work at Exxon and they both draw on their on wages, you know, on their own salaries or - they both draw their benefits based on their wages earned. Then they are going to suffer the same reductions if not worse than people who receive a public pension. On our WEP it seems is the most unfair to me. Because, we did work. We did pay into that ourselves and we should be able to draw both benefits if we worked and contributed in both places. But on the GPO the reduction for a public pension earner is actually less than what happens if both paid into social security.

Rep. Mike Danahay asked if this was federally mandated.

Angie Dowdy answered "yes".

Rep. Mike Danahay commented that when he got these calls, they ended up deferring them to our congressional delegation.

Angie Dowdy responded we have gotten some calls and we just try to explain it, but it's - a lot of people are very upset about this. Truthfully, it has just been recently that more people have been made aware of these offsets, so many early on were not.

Linda Yelverton stated that now there was actually a form that people sign when they are hired by the state. SSA 1945 that alerts them that when they get ready to retire, the WEP and GPO may impact them because they are not paying social security. We did bring up disability because once you come to work for the state, you may have had a disability benefit under social security, but after you have worked for the state for five years you lose that social security disability benefit because you have not paid it five of the last ten years and a lot of people are not aware of that.

Angie Dowdy continued with the presentation, the next slide, it is the social security retirement age - it just gives you and idea of when social security considers someone eligible to retire. As you can see, like a lot of things in the social security calculations, it is a little confusing. So, we just printed it out for you. The last is our resources.

Linda Yelverton said we have our telephone number and e-mail addresses there. The Internal Revenue Service has actually created a federal, state and local government section. They have FSLG agents who go out and audit state and local government. The publication 963 is their publication that explains a lot of the mandatory medicare and mandatory social security division provisions and helps us do our jobs. She said that she thought that sometimes social security was something that people did not realize that they don't have when they come to work for the state and they don't understand the impact of WEP and GPO.

Laura Gail Sullivan stated on the slide where you talk about mandatory social security that in 1990 congress mandated social security withholding for services after July 1, 1991, then you say that employees in a public system which meet certain minimum benefits requirements and asked what are those minimum benefit requirements?

Linda Yelverton answered the retirement system has to give a benefit at least equal to social security, equal to or better than social security. In 1990 when that law passed I did do a survey of all of our retirement systems and they answered the survey and we compared it - even in Plan B of some of our systems, we gave a better benefit at an earlier age than social security did. Plan A's were all much, much better, but the Plan B's were even better than social security at that time. The other option is employees can use deferred comp in lieu of social security. ISIS actually has a 457R code that they can use for per diem, people who are on boards and get per diem pay for the part time - well for anyone who is optional in LASERS they can get us the 457R in lieu of social security at least 7.5% and that is in the IRS publication 963.

Laura Gail Sullivan questioned whether or not this was ongoing if the benefits would be adjusted in some way in one of our plans so that they no longer met that minimum benefit requirement would that - would employees in that plan automatically have to go into social security.

Linda Yelverton replied "yes", they would. They would have to start paying social security.

Laura Gail Sullivan asked who would make that determination?

Linda Yelverton answered the Internal Revenue Service.

Angie Dowdy also answered it is made in federal law that if at any point our retirement systems didn't offer a benefit that would be equal to or greater than what an employee would receive with social security - we are mandated to go under mandatory social security.

Laura Gail Sullivan asked if there was a pre-approval plan if we were looking at some changes that the IRS would look at us or would we just do it and then the IRS comes behind and says - you're in social security now even though you did not know that that was going to happen.

Linda Yelverton responded they would come behind you and say that you are in social security. When there was some talk about making a defined contribution plan and they were talking about the percentages they were going to put in it and it wasn't going to be up to 7.5% that was one of the things that I came and warned them about. You are going to end up having to pay retirement and social security, if you drop that benefit down either under a defined benefit plan or a defined contribution plan. The person that would catch them would be the IRS FLG agents. And they do watch it.

Representative Jim Morris expressed interest relative to the monthly premium figures, the words "timely enrollment" were used and said, I, as a new hire, I'm coming on, and I do not know anything about this, how long does an employee have to get educated on this type of information?

Linda Yelverton replied that most people know at 65 that they need to go to social security and apply for medicare up to three months before their 65^{th} birthday. But I actually had worked with someone whose father was 67 and he had not applied for it yet. He was charged a surcharge in Part B for those two years that he could have had it and didn't. It was like 10% per year on Part B. He was very angry, but he should have done it at 65. Everybody should know at 65, even if you do not qualify for a social security benefit, you should go get medicare. She said that she thought that group benefits does a good job at schooling employees and teaching them and trying to get them to go and apply for it and actually get a statement if they don't apply for it - don't qualify saying that they don't have their 40 credits and they don't have a spouse to qualify.

Representative Jim Morris questioned the term timely enrollment.

Linda Yelverton responded that is age 65.

Representative Jim Morris again comments that he is a new employee and comes to work, the explanation of this that is given to them, how long do they have to sit down and look it over.

Linda Yelverton answered that they are in enrollment with their HR office and the HR office gives them the form 1945 and says that you need to sign this form, it is in your orientation package. It is one of the stack of forms that they sign, they might be 20 or 23 years old or whatever age they are when they come to work. It tells them about WEP and GPO, and it gives them the maximum that the WEP can affect them. I don't know what it is right now, like $350 a month, that WEP can affect them when they get to 65. That is the one and only time that they see it.

Angie Dowdy also answered that is the only education at this point on the front end of employment is SSA 1945 form and it is expected that they will read it and then ask any questions that they have. We have heard from at least two new hires before, but they had a substantial period of time where they contributed to social security and they were very concerned about their benefits being affected.

Linda Yelverton replied that was when they explained the 30 years of substantial earnings. If you have the full 30 years paid into social security you will get both benefits, there will be no reduction.

Representative Jim Morris questioned the break down of employees that are actually -under the 218 agreement that is not all employees right?

Linda Yelverton replied that section 218 is just that most of our state employees do not pay social security, it is only those part-time, seasonal and temporary workers who we exclude from the retirement system. Once we say that they are ineligible they must pay social security, they have no other option.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called on the Louisiana State Employees' Retirement System.

Cindy Rougeou, Director of LASERS, Louisiana State Employees' Retirement System. She introduced Shelley Johnson, actuary and Suzanne Adams, Director of Member Services. She said before getting into the discussion of the LASERS retirement system, she wanted to mention that with all of the discussion about the federal offsets, the WEP and the GPO, that this was extremely burdensome for LASERS' retirees and was something they hear about constantly. She agreed with Ms. Yelverton stating that because there was about an 80 billion dollar price tag to make it go away, that it was probably not going to go away. She thought that there had to be a real opportunity at some point to at least fix the formula particularly with the GPO.

Now with respect to LASERS, we are one of four state retirement systems and one of the ones whose benefits are backed by the full faith and credit of the state of Louisiana. She said that they have constitutionally guaranteed benefits, which means that a LASERS benefit could not be diminished. One of the most important aspects of the constitution was the requirement of actuarial soundness. For many years actuarial soundness was not maintained, now it is required to be maintained. She thought that that was fundamental to the ongoing soundness of the system.

LASERS is a defined benefit plan. A defined benefit plan is a promise of a guaranteed life time benefit. LASERS guaranteed benefit is based on several factors, including years of employment, age for purposes of eligibility, salary, and accrual rate. LASERS has a formula that is set by statute. The accrual rate for most rank and file, the average folk, is 2.5% multiplied by the years of service times the final average comp, which, again, for most regular folks is their highest average 36 months of salary. Act 75 of 2005 changed that. So for those folks who were hired after July 1, 2006, the final average comp is 60 months rather than 36 months. There are three funding sources, employer contributions, employee contributions, and investment earnings. In a defined benefit plan the investment risk is, of course, borne by the employer. LASERS makes the investment decisions and not the individual members. The members have vested rights for benefit eligibility. There is a ten year vesting period plus the applicable age. Once the age and service requirements were met a benefit could not be diminished.

The employee contributions are set by statute. There are different employee contribution rates depending on the plan that you are in. The employer contributions go back to that requirement of actuarial soundness. They include two component parts, the normal cost and the unfunded accrued liability cost, (UAL) which changes annually. The third leg of this stool is the investment earnings. She said that the investment earnings fund the largest part of the benefits paid to the retirees. LASERS has an eight and a quarter (8.25%) expected actuarial return. She said that over the past ten years, there has been about a 7.2% return and over 20 years the market return was 9.1%. In the current year, the employer contribution rate is 18.6% which sounds very high. Why is it 18.6%? It is composed of two parts, the normal cost and the UAL (unfunded accrued liability), that debt payment. The normal cost this year is actually 7.3%, so if there wasn't a debt payment, the employers would be paying 7.3%, which is a very manageable employer contribution. The employees, most rank and file, are paying 7.5%. The UAL payment is 11.3% this year. The UAL payment is the amortized payment on the system debt and it includes both the initial unfunded accrued liability that existed as debt of the system back in the late 80's, which is today 1.8 billion dollars and what has accrued since then which is 2.9 billion dollars so that LASERS currently has a 4.4 billion dollar debt.

Laura Gail Sullivan inquired, asked for an explanation of what the normal cost was so that when you say without the UAL you would be paying 7.3% - what is the 7.3% normal cost by - why are we paying that.

Shelley Johnson responded that the for LASERS the normal cost represents the cost of the benefit being accrued in that year for the members who are currently working. By working they are earning an additional year of service credit that is eventually figured into the formula that determines their retirement benefit. So it is the cost in today's dollars assuming we are going to earn 8.25 interest and pay this benefit out when they retire. Now as for when they retire and what their salary is going to be, all of those things involve other actuarial assumptions and those many assumptions including how long they are going to live, how long the benefit is going to be paid out, all of those assumptions together with the

8.25 discount rate are used to determine the cost of that one year being earned today, and that is the normal cost.

Laura Gail Sullivan inquired so for budgeting purposes when people talk about the cost of salary and benefits for this year's employees, the cost of the retirement benefit for this year's employees is only the normal cost - the 7.3%. The agency or the employer may be responsible for the 18.6%, but only the 7.3% is the cost of today's people and so if we did away with all of the employees, we would save only the 7.3%, we would still pay the bulk of that payment which would still be due from the state and would be payable directly to the systems even if there were no agencies to funnel it through.

Cindy Rougeou responded that was exactly right, the bulk of the payment had to do with that debt that cannot go away. There is a payment schedule that was required to be met. That is why it is important to point out that the lion's share is the debt payment. She said that the debt payment exists because the state of Louisiana had insufficiently funded the system for over 50 years.

Laura Gail Sullivan commented that looking at the actuarial note that she had handed out to the members for Act 75, that all of the savings in Act 75 were normal cost savings. Changing benefits for new hires, even changing prospective benefits for current hires is only going to change your normal cost, it is not going to affect the UAL.

Cindy Rougeou also pointed out that LASERS was not a pay-as-you-go system. They do not fund benefits being paid right now, they are funding benefits being accrued each year. The largest percentage with respect to the benefits being paid is funded through the investment earnings.

Representative Mike Danahay inquired about the calculation of the UAL and asked how many years out was that done.

Shelley Johnson responded that the UAL was calculated as the difference between the liabilities and the assets on hand to fund the liabilities and it is based upon mortality tables and how long we expect to pay the benefit out. So if it is a retiree who has no beneficiaries, we look at mortality tables and look at the probability of a payment of each year for the rest of their life. So we use mortality tables to calculate that.

Representative Mike Danahay asked if it varied from employee to employee.

Shelley Johnson replied that it varies from employee to employee based upon their sex and their age. We use the same mortality table. When an experience study is done, the board adopts a mortality table and that is what is used for employees. There is a table for males and a table for females so that we have the appropriate mortality table, and then whether or not a retiree has chosen a beneficiary. If a beneficiary has been chosen - a reduced benefit so that their benefit will continue for their beneficiary, then we also look at the age of the beneficiary and how long we would expect to pay a benefit to them upon a retiree's death.

Representative Mike Danahay inquired so the UAL exists for the period that this set of employees that were prior to whatever year it was that we were paying on for their expectancy in life.

Shelley Johnson responded the general term for the UAL includes the initial unfunded accrued liability and it includes the IUAL, but it really includes the liability for everyone. So even those who are not in payment status, there is a liability for them based upon benefits that they have already earned through today.

Representative Mike Danahay inquired as to whether or not there was at some point - where they started funded their retirement benefits properly - then prior to that is where we accumulated that debt.

Shelley Johnson replied that IUAL, right, prior to 1988.

Representative Mike Danahay asked so eventually as those people come off of the system down the line, would that UAL be reduced?

Shelley Johnson responded that the IUAL was a fixed number so the liability, once the system became actuarially funded, the IUAL was set. That is a liability that was established at that point in time and it is paid down through amortization payments. She said there's fixed payments that are determined by statute - they're provided in statute that determines how we determine the payments to pay down this IUAL. This past legislative session SB 296 allowed for some changes as to how all of that is done, but essentially it has to be paid off by 2029 and that is still going to be done according to the new schedule from this past session.

Representative Mike Danahay inquired as to what if the IUAL was not paid off by 2029 and asked if we would have to go out and borrow the money to pay it.

Shelley Johnson responded that it was constitutionally required to be. It is paid through te employer contribution rate.

Representative Mike Danahay asked if their contribution rate would go up.

Shelley Johnson stated it is an increasing schedule. The payments are on an increasing payment schedule. So the payment is higher at the end. That is part of what was changed in the past session. The IUAL was combined with other amortization schedules - there are positive and negative amortization schedules and the IUAL, of course, is the largest positive outstanding debt. So it had the largest payments that had to be paid towards it. It was combined with some other negative schedules that reduced the payments. It was re-amortized so that the payments are increased at an amount that varies every year and ultimately for this particular schedule, they will increase at a rate of 2%. So the idea is that it will eventually be more affordable than it otherwise would have been before this last session where they were increasing at a rate of 4.5% every year. So yes, the payments will increase. Hopefully, they will be increasing at a more manageable rate now.

Cindy Rougeou stated that the state of Louisiana who pays the employer contribution rate is paying off that debt, paying towards that debt each year and that is at 11.3% that is the UAL component of the employer contribution rate, with the 7.3% being the normal cost, that 11.3% is that debt payment that is being made this year. It will be a little different next year until it is paid off.

Representative Mike Danahay inquired if the tax payers ended up being assessed with it?

Cindy Rougeou responded that it was funded in a variety of different ways. The employer contribution is funded through general fund dollars, statutory dedications and through the budget. She said yes sir, and that was the result of 50 years of insufficient funding.

Elizabeth Murrill inquired relative to the largest percentage of benefits being paid was funded by investment earnings and asked about the consequences of market fluctuations. It was her belief that if they were paying out the investment as the investment earning were earned, then it seemed to her that they would never recover from that.

Cindy Rougeou responded that actually they do, because they were such a long term investor, they have a 30-year horizon and their 20-year market return was 9.1% even with the market volatility after 911. She said that she thought we would see more market volatility this year. She said that after 911 there were two or three years of down markets and then they had their best market returns ever in the mid to high double digits. She said that the fluctuations worked both ways.

One of the things that LASERS does in terms of their asset valuation is that they use a three-year smoothing so that they never directly feel the market highs or the market lows, because we take into account, it is not exactly an average, but it is similar to a three-year average. For instance, last June, June 2008, we had a negative market return, it was a little over negative .3%, but the actuarial return was a positive 8.49%. While there is a 4.4 billion debt, we have 7.2 billion dollars in assets and those have continued to grow over time. This year they are taking a hit, but we have not found ourselves in a position of being unable to pay our benefits. She said that it has ranged anywhere from investments covering over 50% to over 70% of the cost and that is why the asset allocation and the returns in our investments are so critically important. Because actually the state of Louisiana, when we talk about your normal cost, pays for such a small portion of what is ultimately paid out in benefits and we pay about 750 million dollars in benefits a year. Most of which stays in Louisiana.

The handout, on page 8, shows the differing accrual rates for the different types of members, the different number of retirees among these various groups, the employee contribution rate, the average monthly benefit. She pointed out that the average annual benefit for the rank and file folks was about $18,000 and when you get to the far right column that says employee funded, this is the percentage of the total current normal cost that the employee funds of his own benefit. Regular rank and file folks are funding over 50% of their benefits, Corrections Secondary 56%, but looking at Wildlife Agents before 2003 29.3%, it varies.

With respect to the overall membership, obviously LASERS is the plan for state employees and the lion's share of all state employees are in LASERS and their membership is statutorily set. There are about 39,000 retirees. When active members were combined with DROP members, who are considered active, it is about 64,000 active members. So there is throughout the state a very large number of individuals who are very directly impacted by what LASERS does and the decisions that are made affecting LASERS.

She said that there was a small group of individuals who are state employees who are not required to be in LASERS. She said that there had been a lot of discussion about the defined benefit plan and if that was a good thing and said that there was a very intense study done by the legislature before the 2005 legislative session. It was chaired by Representative Schneider, the chairman of the House retirement committee, at the time, and there was a lot of discussions on defined contribution plans, defined benefits plans, what was best for the state of Louisiana, what was best for the employees of the state of Louisiana and the result of that study was Act 75 of 2005. She said that the state of Louisiana had already taken very substantial steps in terms of addressing issues relative to the state of Louisiana's LASERS' members.

Laura Gail Sullivan stated that page 8 of the handout corresponded the one of her handouts (page 57 from the 2006 actuarial report) the percentages are different from the legislative auditor's office about the employee portion of the cost for benefits. That's because the legislative auditor's numbers show the employee portion of the cost for benefits with interest. That is how much of their benefit that they paid by putting money in and the interest accruing on theirs. Cindy's column on "employee funded" takes the fact that the actuary calculated a normal cost each year and then they back out the employee portion of that normal cost to get the employer's portion. The percentage on that end represents looking at this year's employer portion of the normal cost being 7.3% - what does the 8% present in relation to the 7.3% - what does the 9% or the 9.5% or the 11.5% represent in relation to the 7.3%. That is what these numbers are. You would see an "employee funded" and you would think that those percentages should be fairly close, but they represent two completely different concepts. She said the last handout she had was the chart that compares Act 75 LASERS members with regular LASERS member pre Act 75.

Cindy Rougeou stated that the 2005 study by the House committee determined that the defined benefit plan was what was best suited for Louisiana's public employees. However, the study that came out of those meetings determined that the benefit structure should be substantially changed for new hires. Those who were hired on or after July 1, 2006, in LASERS and what we are doing now. Most of the rank and file folk pay 7.5% employee contribution, the Act 75 members, and this only applies to rank and file members, pay 8%. They have only one retirement eligibility and that is 10 years of service at age 60. Also their final average compensation, their salary is no longer based on their highest consecutive 36 months, but on a 60 month period of time. Looking back over the actuarial note, it is intended to reduce future cost for the state, approximately 10 million dollars over five years. The pre Act 75 rank and file folks and their eligibility for retirement; they have 10 years at age 60; 25 years of service at age 55; 30 years of service at any age, there is also a 20 years of service actuarially reduced eligibility for retirement. So if you have 20 years of service regardless of your age, if you decide that you just want to go ahead and retire, you can do that, but your benefit would be substantially reduced. There are approximately 9,000 member of our current rank and file who would be eligible for that 20 year actuarial reduction. A little over 16.46% of our current rank and file members are eligible for this 20 year actuarially reduced retirement eligibility. She said that LASERS had a variety of plans and the variety of plans have a variety of retirement eligibilities, rank and file folk, judges, corrections, there are different retirement eligibilities depending upon the LASERS' plan that you are in. She pointed out that while legislators are mentioned on the list, those who came in after January 1, 1997, are, for the most part, not eligible to be in LASERS. She said that there are some who are still here, that might have some retained eligibility, but not after '97, the new guys for the most part are not eligible to be in LASERS.

Representative Jim Morris inquired as to the policy reasons for the differences among the public safety groups.

Cindy Rougeou answered that public safety officers because of the hazardous duty services that they perform do not tend to be able to serve for 25 or 30 years. They tend to have an earlier eligibility at an earlier age because of the burden that is placed upon them. She said that they did not have a uniform comprehensive hazardous duty services plan and thought that ultimately from a policy decision that was something that they needed to get to.

There are a variety of retirement options, so that once you reach eligibility, age and service and are ready to retire you go to LASERS and say that I am ready to retire, what are my choices and there are a variety of different choices that you can make that, most of which would result in reducing the benefit that you are going to receive. So you may choose no, I want it all myself, I do not want to actuarially reduce my benefit, I want every dime and take the maximum benefit and go on my way. Or I can say that I want to leave my spouse a benefit even though knowing that I would be offset by the GPO should it be reversed. I want to leave my spouse a benefit, then I have a variety of options which I may choose from to leave him a benefit, but I am then going to take less of a monthly benefit and so there are a variety of different options to do this. One that I would like to point out is this past session Act 270 was passed establishing a new option for the pre-funded 2.5% annual COLA.

Representative Jim Morris questioned, using himself as an example stating, I have gone to work and I am fixing to retire, when we sit down to look at this, how much education are the employees getting on this and what time period are they going to have to address this in.

Cindy Rougeou responded that they start providing information to the members at the first point of enrollment in LASERS. There is a very substantial enrollment packet that they get and we provide outreach to our members continuously. We have education field reps that go out and talk to member groups. One of the things we do in working with our agencies is encourage the folks who are within ten years of retirement to come to our preps. They are given all of this information and have an opportunity to answer these questions. We also encourage our members to come in six months to a year before they are ready to retire and sit down with one of our retirement benefit analysts. It usually takes at least an hour per person. We will run their estimate in all the variety of different options and we will go through each option with them. They are complex, but we have a tremendous outreach to our members in all aspects of this.

She said LASERS does offer a disability retirement option upon ten years of service credit and, again, this is rank and file because differing plans have a little bit different tweaks to these options. You have to be totally incapable of performing the current job duties in accordance with LASERS' law and be re-certified every five years. We also have a formula to provide survivor benefits such that, let's say I walk out the door and I do not get that chance to retire and leave my husband that benefit. There is a survivor benefit for both the spouse and eligible children.

Also, a few years back the federal government decided that "air time" would be authorized. Air Time is where you can purchase up to five years of unearned service credit. Initially when the legislature passed the law, a member could actually purchase up to five year of service credit for purposes of eligibility to get you to that magic service by which you were eligible to retire if you have the age. That changed so that on or after June 30, 2005, you can no longer purchase five years of air time for eligibility. You may, however, purchase it for calculations. You have to attain the requisite years of service and age to retire, but want to beef up your retirement benefit. You can pay a large sum of money that can be calculated so that you would have, in essence, up to five more years of service credit that you did not earn, but paid for. This is something that I mention because it tends to come back, every year or every other year that the legislature is asked to reconsider whether or not to once again open it up to eligibility purposes.

Probably all here have heard about DROP (Deferred Retirement Option Plan). It is, I think unfortunately, considered by many of our members to be the be all and end all and the right choice of everyone and that is simply not the case. The DROP program was one that was created to be actuarially neutral to the system, it was designed to not cost LASERS anything and what happens is that once you reach retirement eligibility, age and years of service, but are not actually ready to walk out of the door, but I would like to be able to build a nest egg, so I go into DROP and I can go into DROP for up to 36 months. During that 36 month participation period, the benefit that LASERS would have paid you had you walked out the door instead is going to go into an individual DROP account and during that time, you are not going to pay employee contributions into LASERS and employer contributions will not be paid into LASERS. After that 36 month period, I have a choice, I can walk out the door and take my DROP account and be a retiree or I leave my DROP account right there, I can not touch it because I am still in state service, I keep working at which point I can start again earning service credit and the contributions are once again paid into LASERS. It is very common for individuals to continue working after DROP. There is a down side to DROP and that is that when I go into DROP my benefit is set. When you go into DROP you are betting against yourself because you may, after that time, get a tremendous promotion and have a wonderful salary increase, while your benefit is set. You can earn a supplement, but the lion's share of your benefit was set when you went into DROP.

Let's say that you don't want to bet against yourself, but ultimately you want a nest egg and are walking out of the door. Instead of DROP, you have the Initial Benefit Option plan available to you which would allow you to take up to 36 months of your maximum benefit and put it in a nest egg for yourself. LASERS can calculate the actuarial reduction that you would sustain of your benefit to be able to have that nest egg. So instead of saying that you want the maximum benefit, you want 12 months of a nest egg for an IBO. What would that cost me in my benefit and I can do that instead. That way you have an opportunity to take advantage of whatever promotions and salary increases you receive along the way. It is not right for everyone, but it is another option as opposed to DROP or you can simply do neither one. In closing, again we are a defined benefit plan. We have the three sources of funding, the employee contributions, the employer contributions, and investment earnings. There are nearly 150,000 individuals who are or have been in LASERS. She said that she thought that it was important to remember that the defined benefit plan had been studied and had been determined to be the best plan for Louisiana state employees. Our average rank and file member's benefit is $18,000 a year. She said that they had a structure that worked and when you look at what the normal cost provides, it provides a modest benefit, the state is paying a modest amount considering the benefits that are provided to our members.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called on the Teachers' Retirement System of Louisiana.

Maureen Westgard, Director Teachers' Retirement (TRSL). She said that they have a large and were known for their define benefit plan, but they also offer what is called the optional retirement plan (ORP). She said that Teachers' was formed in 1936 and has a 16 member board which is one of the largest boards in the state. There are elected trustees as well as representation by 4 ex officio trustees from both the executive and legislative branches. The treasurer, Mr. Pastorek and the chairs of the house and senate retirement committees. In 2008 they paid $1.38 billion in benefits with over 90% of that staying in the state of Louisiana. She said their average benefit was about $21,372 for the average teacher retiree out of the defined benefit plan. As of July 31, 2009, TRSL's investment assets were about $11.2 billion. She said that figure had gone up just a little bit because the market had climbed in the last few days. The employer and employee both make contributions to the pension system. The employer contribution is based on actuarial calculations. TRSL is a fully actuarially funded system. In the case of Teachers' for this year that started in July, the contribution for employers was 15.5% with the normal cost being 5.76% and the payment for their debt service for the UAL was 9.74%. Employees -teachers pay 8%. TRSL is a benefit that is guaranteed for life.

The defined contribution plan is structured in the same way as LASERS in that the amount of the contributions being made by the employer and the employee, to the employees retirement account, are exactly the same, there is no difference. The employer still pays the 15.5%; that money goes to TRSL where they take off the UAL payment portion. She said that when the ORP was set up in 1992 there was a recognition that these employers still needed to pay towards the debt of the retirement system. So that portion is still taken by TRSL and applied to the debt. The normal cost portion then goes to the employee's account with the third party provider they selected. Their 8% contribution is also put into that account. This is more of a traditional 401(K) type of account that might be used in the private sector. The employee then makes the investment decisions from options that are offered by three providers in the state. The statute allows TRSL to select up to three providers. The ultimate benefit is not guaranteed, it is based exclusively on the contributions and the investment earnings of the employee and the selections they made in their own asset allocations.

The membership is made up of K - 12 teachers and other professionals that are in the schools, such as counselors and administrators. The unclassified higher ed employees have 60 days upon hire to make a choice between going into the defined benefit plan or the defined contribution plan. There are many support services provided for them, their own HR shops in each of the higher ed institutions, as well as the providers that were hired who are required to have people on site and available to answers questions about the programs. She said unclassified employees of constitutionally created educational boards, such as BESE or the Board of Regions are also members of Teachers'. Certain employees of education-related organizations, like a teacher who went to work for a union, who is on leave, as long as they are being paid by the school district and are on official leave, they could still maintain their Teachers' membership. They also have members working in the public sector who have at least five years of teacher service and who choose to remain in TRSL during employment with another covered employer. That would be a case where someone was a teacher or a member of the Teachers' system and decided to go work at a state or other public agency. After they are vested in the system, then they can choose to remain in Teachers' if they want to. There are over 81,000 K - 12 members in the regular plan of TRSL. The number for higher ed, about 10,000, is almost split equally between the defined benefit plan and the defined contribution plan. There are 592 TRSL employees that are in the state which are not part of LASERS. Other employers such as labor unions, etc., there are only 91 people. There are 91,000 active members on the defined benefit plan and 9,000 in the optional retirement plan who are in an active contributing status.

As of June 30, 2008, there were a little over 63,000 benefit recipients which included both retirees and their beneficiaries. These numbers also include active members who are participating in DROP, but still employed. The defined benefit plan also has a formula-based system, it is the years of service, the benefit factor, and the average final compensation. The DROP and lump sum benefit options are available to our members and are basically calculated the same as LASERS. Teachers' benefits are structured pre July 1, 1999 and then post July 1, 1999 with some of the eligibility changing during that period. She said this worked quite well for teachers and provided more flexibility for them. They have a 2.5% benefit formula. They can retire at age 55 with 25 years of service; at any age with 30 years and age 60 with five years. Age 60 with five years of service was added in 1999 to address the issue of second career people who perhaps retired from a business, but wanted to get a teaching certificate and then go into that particular area. She said that they do not have a lot of retirees that take advantage of that, but it has drawn some people into the teaching field. TRSL members do not participate in social security.

Teachers' optional retirement plan is available to both academic and administrative employees of colleges and universities and also the employees of higher educational boards. They are required to contribute their full 8% of salary and the employers are required to contribute both the normal cost and their UAL payment so that there is no "savings" to the ORP account. TRSL charges a small 0.1% administrative fee for the internal support that is provided. Election to participate in the ORP is irrevocable. She said there have been many people come forward saying now that they were vested, they wished they had known and would now like to be in the defined benefit plan. TRSL by statute can have up to three providers, those are selected through the formal SFP process. The last time that this was done was in 2005. TRSL will be putting out an SFP mid-September to re-evaluate and look at the providers. Total assets in the ORP as of 12/31/08 were $881 million. She said that was down because of the market reaction from about June, 2008. They are usually over a billion dollar plan. The people, on average, have seen probably about a 27% reduction in the value of their defined contribution account given the recent market situation. She said it was coming back up somewhat and that should make a difference. Page 10 of the handout shows the split between the three company providers, VALIC; ING; TIAA-CREF. She said one of the challenges was that these people also do not pay into social security so it was always importANT to remember that the $45,000 average account balance would not take you long into retirement.

Representative Jim Morris inquired as to why teachers' elected to do an ORP.

Maureen Westgard answered that it was at the request of the HIGHER educational community. She said the one thing about a defined contribution plan was that it had more portability and in the higher ed community you often have professors who do not get tenure who will work for a while and teach and then move on. All of their accounts would be portable, or transferable TIAA-CREF is a provider throughout the country. So, it addresses the issue of portability within the higher ed community. She thought it was interesting because Teachers' added its five year vesting period and felt that there was no better to way to hold on to teachers and thought that it worked extremely well in the K-12 system to have them vested in the system.

Representative Jim Morris questioned whether or not that purpose had been satisfied.

Maureen Westgard responded that she thought that there were people who viewed it as working, but said that they also often hear from people who once said that they never thought they would be here five years. However, they now have been and now wished they could be in the defined benefit plan. But of course, there is a cost to that, so it is a challenge. It is just like DROP you are almost betting against yourself. It is always easy to have hindsight. But when you are making choices for the future about what you are going to do, sometimes your life changes.

Representative Jim Morris inquired relative to the portability aspect of it and asked if someone left their job and moved to another state - how soon could they roll this over?

Maureen Westgard replied that each of the plan providers allows for different times, but it is typically within, about, 90 days and often as in TIAA-CREF they are available at other universities.

Representative Jim Morris asked how long someone would have to wait to draw from the ORP account.

Maureen Westgard answered as long as they are active and teaching, then they are in "active service" and in payment status, there is no official "retirement" age although she thought that the IRS had a penalty if you pulled money before the age of 59 1/2. As far as the cost of the benefit, both payments are included, the charts on page 11 of the handout shows the-ten year normal cost. She said the key factor from this chart was the last bullet point showing that the employer contribution to social security was 6.2% as well as the employees' portion. The normal cost, the Teachers' benefit, floats very close to that 6.2% of what social security would cost. She thought that there was a true mis-conception out there that the TRSL was expensive or more costly than social security and social security would be a better benefit. We must offer at least similar benefits to that of social security and the cost over a ten-year period has been relatively constant. Page 12 shows the comparison since 2004. The top line is the teacher benefit, the line next is social security and then the federal poverty levels, one under the age of 65 and over the age of 65. It was her belief that the Teachers' benefit for the cost, the normal cost was a good benefit for the state of Louisiana and for the teachers.

She then talked about returning to work. She said that this was a little bit out of the benefit area, but did want to mention about how it was structured for the teachers. When a teacher retires, they must take a 12 month period off from work or have their benefits stopped (suspended), if they go back to work any time within a teacher eligible position. If you have retired from Teachers' and go to work in a different position and retirement system that is not education oriented, then you could still draw the benefit, but if you go back into teaching, that would include administrative jobs and that type of thing, and you have not waited the full 12 month period, then your benefits will be suspended. If you choose to wait the full 12 months and then go back to work, then you could draw both your salary and your retirement benefit. But once you start back on that new salary, then as an individual, you must pay that 8% employee contribution rate and the employer, because you are taking a position that would normally be paying into the retirement system, the employer contribution must be paid. Once you are terminated, once you fulfill your contract and the employer actually sends TRSL a termination notice we will refund to the employee the 8% contribution, there is no interest on that, but they do get it back. The employer contribution stays within the trust.

Representative Jim Morris inquired as to why?

Maureen Westgard answered that it was based on the issue of double dipping, the cost, the debt service to the state and making sure that those payments were still being made to the debt service.

Representative Jim Morris asked so if an individual waited the 12 month period and then became re-employed it would not be considered double dipping.

Maureen Westgard replied at least, the position is being paid as it would be with any active position or person that would have otherwise filled that position. She also pointed out that the retiree would not earn any additional service credit. In other words they do not recalculate their retirement benefit. In closing her presentation she said that they had 6,713 people on a return-to-work status, the vast majority of that (5,600) being in the K-12 system, 763 in higher ed, and about 290 in the other employer group.

Representative Mike Danahay inquired as to whether or not the 6,713 member in the return-to-work status participated in the DROP program.

Maureen Westgard answered that some of them could have. She did not have that break out, but they certainly could have.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called on the Louisiana State Police Retirement System.

Irwin L. Felps, Jr., Director, Louisiana State Police Retirement System. He said that they were the smallest of the four state systems. They have about $350 million in assets as of current date. There's a lot of differences between their plan and the other systems. There are several factors that are unique to the state police retirement system. Every member of our system puts on a badge, gun, and the uniform of the state police each day. It is the only completely hazardous duty system for state employees. They have about 1,100 retirees and about 1,000 active troopers. No administrative personnel are allowed to participate in the system. That includes other administrative personnel who are helping to administer the retirement system and the day-to-day activities of the state police. He said they had participated in studies over the past five to ten years which would reflect that the retirement system for state police in Louisiana was comparable with any system, any hazardous duty system in the United States. It was his belief that they were probably in the top 3 to 5 percent of retirement systems for hazardous duty people in the United States and was quite proud of that. It was also his belief that they were the elite law enforcement personnel for the state of Louisiana. He said that they are very specialized and very educated. The profile has changed dramatically over the last few years in terms of the types of people who are state police and who are allowed to participate and become state police. The one criteria that they must all have to be a state police officer is that they must graduate from the state police academy. As for educating our employees about their retirement benefits, he said they try to get in there real quickly, during the first six months of their employment, typically at the beginning and then at the end of that six month period. He said that they try to visit with the state police academy. The actuarial rate of return they must earn each year in order to be sure that their liabilities are paid is 7.5% which was a little bit more conservative than Teachers' and LASERS which helps in terms of investment obligations and how they allocate their assets to be able to earn that 7.5%. It was his belief that their general benefit structure and disability benefits were very important to their system.

Kimberly Gann, Assistant Director, Louisiana State Police Retirement System. She said that a lot of their benefits and the way they calculate the benefits was much the same as LASERS, the difference was that they pay it at 3 1/3%, that was the retirement accrual rate. So the calculations are the same, the years of service, times the accrual rate, times the final average compensation which was also the highest 36 months. The retirement eligibility is ten years at age 50 or 25 years of service whichever you reach first. So you do vest when you are a state police officer at ten years of service. Currently they have service connected disabilities and there is no minimum amount of service attached to that. So you could be one day on the job and you have a service connected disability and you are approved by their doctors, you would receive 50% of your final average, or if you only have one day on the job your assumed final average. If you do happen to have over ten years of service and you have a service connected disability, you would receive an additional 1.5% for each year that you have over ten years of service and then, of course, if you have any leave, that will be added into your benefit as well. The non-service connected disabilities are a little bit different. You have to have five years of service in order to qualify for that. The calculation is the same, 50% and 1.5% for any years of service that you have over ten years. They do have a catastrophic service connected disability benefit that was passed a few years ago. The eligibility for this is very specific. It is loss of limb, loss of organ, sight, hearing, paralysis or permanent damage to the brain or spinal cord. If you qualify under this disability you would receive 100% of your current final average or $36,000 per year depending on which is greater. If an officer is killed in the line of duty, that officer's family would receive 75% of their final average compensation. So we do take care of those folks as well. Currently, they have about nine catastrophic disability benefits that have been approved and overall they have 62 disability benefits that they are paying.

Irwin L. Felps, Jr., said that the contribution information had been discussed with the other systems. Their situation was very similar. They have employee contributions, employer contributions, and investment earnings. The most important one being the investment earnings, that is the critical element that must balance everything and therate they must earn is 7.5%. Over the last ten years, they have earned right at 7%. They have been just a little bit under that number for the last ten years in the most difficult times of the economic conditions, probably since the great depression. The system began to be funded in 1988 and for the last 20 years it has actually earned almost 8%. So, they have actually been over the 7.5% that they are mandated to earn in order to make the system actuarially sound. From a contribution stand point, the employee rate is currently at 8%. He said that would be increasing to 8.5% beginning October 1, 2009. The increase will be used to pay for the Back-Drop option benefit that the state police received during this past legislative session. The employer rate was considerably higher than it had been in the past - it was at 41.3% and of that 26% is normal cost with about 15% being the payment of the unfunded accrued liabilities. In 1996 their initial unfunded liabilities began to be paid off because the legislative body had made a decision to contribute $10 million from a Texaco Oil settlement fund which was invested. And over the next ten years, it grew to about $53 or $54 million. In 2007 the state police's initial unfunded liability was paid off from that $10 million allocated back in 1996.

They currently have about $199 million of incremental unfunded accrued liabilities which results from times when benefits increase or investment earnings were not sufficient to cover the cost. That $199 million is amortized now over a level amortization schedule, unlike Teachers' and LASERS who are on an increasing interest calculation or increasing amortization schedule. In 2008, state police demonstrated to the legislative body through actuarial numbers that if they paid more, as you would with a level amortization payment on your house note, paying both principal and interest each month, then over the next 16 years, our retirement system would actually save the state $40 million. In the earlier years from 2009 through 2016, the cost will be a little bit higher, but in the later years, the interest savings because we are paying principal earlier, will be substantial and actually save the state about $40 million. He thought those decisions, the decision to give them that $10 million back in 1996 that helped them to pay off the initial unfunded liability and the level amortization schedule were so critical to the future of the state's budget.

The Back-Drop option which is a brand new option - with hazardous duty people, their career expectancy is probably about 25 to 28 years for most of them. The average trooper is about 53 years of age when he retirees. The DROP program encourages people, especially hazardous duty people, to make a decision at a point in time when it is not necessarily at their best advantage and about 40% of the troopers who went into DROP made a bad financial decision, meaning that they received pay increases, promotions and things of that nature afterwards and it made the decision to go into DROP a bad choice for them. This encourages them to work longer and many of them would work five to eight years longer than normal because they wanted to make up as much of that benefit that they had lost by going into DROP by returning to work and working after DROP. After looking at several other retirement systems, hazardous duty systems around this state and visiting with three or four of them, the sheriff's, the assessors, the district attorneys all who have Back-Drop programs, as well as talking to several hazardous duty systems in Texas and to the actuary, they began to see a pattern that the Back-Drop program worked much better for hazardous duty people. It would allow a trooper to work until they have about 27 or 28 years of service plus the years of sick and annual leave which would bring them to a total of 30 years of service and at that point they were basically at 100% of their retirement benefit. They could look back at that point, that is where the term Back-Drop option comes from, and determine whether they wanted to go into DROP or should have gone into DROP. He said it might be a good decision to go into the Back-Drop program for about 20% to 25% of the people. Most of the troopers will probably not choose Back-Drop, but we have allowed in our actuarial calculations about 50% participation in Back-Drop. It will be started October 1st. He said that they are currently visiting with the troopers and finding that most of them probably will not benefit from the Back-Drop, but it keeps them from working those extra years, and thought that was important, not only for the state and its budget, but for the troopers, to get them off of the roads at a younger age. He said that he thought it would be a very beneficial decision for them and hoped that it would work well for the retirement system as well as for the state.

Representative Jim Morris inquired as to how the Back-Drop program was being funded.

Irwin L. Felps, Jr., answered that the total cost of the Back-Drop program was funded over a ten year period of time and was funded by an increase in the contribution rate from the state troopers themselves. The contribution rate will increase by 1/2 of 1% in order to fully fund and pay for that benefit. Knowing the difficult economic times that the state was in right now, they knew there was no way that they could expect the state to pay for that benefit and the troopers wanted it so bad that they were willing to pay for it themselves.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called for testimony regarding health insurance, from the Office of Group Benefits.

Tommy Teague, Chief Executive Officer of the Office of Group Benefits, said that all full time employees, retirees of state agencies, state colleges and universities and all participating school boards, elementary and secondary school systems, and each board could elect to participate in group benefits or elect not to. They have 46 school systems throughout the state participating in the plan. OGB also covers the legal dependants of employees, that being spouses, never married children up to age 21 and up to 24 if the child is a full time student. The effective date of coverage is the first day of the month coinciding with the next following 30 days of service. Unlike the retirement systems, the benefits and payments of group benefits are statutory and not constitutional. By statute for active plan members, the plan member pays 25%, to be applicable, of the premium amount and the state pays 75%. For the dependants, the active members pays 50% of the cost of the dependant coverage. Basically, the employee overall, right now, is paying about 29% of the aggregate cost.

Representative Jim Morris inquired as to how long this break down had been in effect?

Tommy Teague responded that the contribution use to be 50% and the state contribution was raised to 75% in . . .

Tommy Benoit, General Counsel, Office of the Group Benefits, also responded that the current break down was set by Act 1178 in 2001.

Tommy Teague stated also by statute they had a participation schedule that determined how much the state would pay for retirees who were eligible to keep their coverage into retirement. He said that there were many people who were grandfathered in when the participation schedule was enacted. If an individual was not grandfathered, with ten years or less of participation, the state would pay 19% of the cost, more than ten years, but less than 15, the state would pay 38%, 15 years or more, but less than 20, 56% and 20 or more years, 75%. For dependants the state pays 75% of the cost. They offer four different plans. The PPO plan which is self funded and administered by the Office of Group Benefits; HMO which is self funded and administered by a 3rd party, Humana; EPO which is a nationwide network and is self funded and also administered by a 3rd party, United Healthcare and Medical Home HMO which is also self funded and administered by a 3rd party, Vantage. The PPO (Preferred Provider Organization) is a standard plan where the members could choose whatever doctor they want. There is a network of providers throughout the state. HMO (Health Maintenance Organization) and EPO (Exclusive Provider Organization) provides a nationwide network of providers, so if someone would elect to join the EPO system they could essentially go anywhere in the country to get service. The Medical Home HMO is where all services have to be directed by your primary care physician. All of these are self funded, so there is a single risk pool.

Representative Jim Morris asked for a breakdown as to how many employees were in each one of the systems.

Tommy Teague answered that in the PPO program there is approximately 47,600 members, in the HMO there is about 62,000 and in the EPO program there is about 20,700. The Medical Home just went through an open enrollment period with about 1,600 people who elected this program.

Representative Jim Morris asked about the educational process and how soon an employee would have to make a decision and if it was something that could be moved from one to the other if they chose to do that.

Tommy Teague replied that the initial decision was made by most state employees when they are first hired, they have within 60 days of their first date of eligibility, their date of hire to make a decision as to when they want their coverage to become available. There is information at every HR office, as well as a customer service department that is ready to answer questions and a field service department that goes to agencies and makes presentations. Every year during April, employees can switch plans. They can choose to move to another plan if they desire before the July 1st date which is the beginning of the fiscal year. There is a group of people who continuously educate employees. In April several hundred meetings were held with state employees statewide to explain the difference in the plans and the difference in the benefit structures. They also hold training continuously for agency representatives to train them in the benefit structure and in the eligibility system so they can add and subtract people from the system because they depend upon the agency to tell them who was eligible and who was not. He said that their four plans were available to active employees and retirees and in addition to that they have medicare advantage health plans that were available to the medicare eligible retirees. He said they do have some membership of their retirees in these medicare advantage health care plans which essentially takes the place of medicare for a year if a person desires to join. So they make some contributions toward a person to join a medicare eligible medicare advantage health plan, but these plans are also being paid by medicare to fully take care of the health needs of the members who join. The population fluctuates, but currently there is approximately 132,305 active and retired employees. That is the member count and if you count dependants, there are about 250,000 people covered by the Office of Group Benefits. They have a $1.2 billion dollar a year budget and a fund balance of about $484 million dollars.

Representative Jim Morris asked for the number of active state employees that were exclusive of dependants.

Tommy Teague replied there were 86,253 active employees without dependants and 46,052 retired employees.

Representative Jim Morris also asked for the same number as it related to active employees that use the dependant benefit.

Tommy Teague replied that he did not currently have that information, but would provide the advisory group with a breakdown by class of coverage. But there are approximately 250,000 total people covered under the plan and about 132,000 of those are the employee or the retiree.

Representative Jim Morris inquired as to the dependant aspect of the . . .

Laura Gail Sullivan inquired as to the number of dependants there were for active and retirees and asked how many active employees use the dependant options and gave an example of the active employee who was married and had children, they would have more than one dependant, there would be the spouse and the number of children they had.

Tommy Teague responded that they could provide the group with that breakdown. He said these enrollment numbers did not include the LSU consumer driven plan, they administer that plan separately. As for the administrative cost, approximately 82% of their payout was for medical benefits, 14% for prescription drugs, 1% for mental health and 3% administrative cost. The OGP consist of 332 employees divided into 5 divisions, benefit services; customer services; information services; quality assurance and administration; and legal and HIPAA. He said that they perform all of the functions of a commercial insurance company. For the PPO plan, they pay the claims and maintain a provider network of medica providers statewide. They have a customer service department that answers calls. He said about 88% of their claims come in electronically and the vast majority were adjudicated electronically with only about 12% being paid out manually from a paper claim.

Representative Mike Danahay inquired relative to the 3% administrative cost and asked 3% of what?

Tommy Teague replied of their budget.

Representative Mike Danahay asked what that would be.

Tommy Teague replied that he did not have that information, but could provide the group with that breakdown.

Representative Jim Morris inquired as to whether or not all of the numbers correlated back to the budget cost.

Tommy Teague answered, right.

Representative Jim Morris asked what those numbers were.

Tommy Teague responded $1.2 billion per year.

Representative Mike Danahay asked if the administrative cost was 3% of that $1.2 billion and asked if that was what the calculation would be based upon.

Tommy Teague replied that they paid out a little over $1.1 billion a year, so 3% would be 3% of that number.

Representative Jim Morris asked for numbers on the historic cost as for as the administrative aspect of it going back pre storm.

Tommy Teague answered that they could provide an administrative cost calculation for the group.

Representative Jim Morris asked if it could be broken down all of the way, for drugs, mental health, medical benefits and administration. He also asked if the administrative cost at 3% has remained that way historically.

Tommy Teague responded that historically they have been at about that rate. The insurance industry has a much higher administrative rate than that and he thought that their 3% administrative rate was a very good administrative rate for the work that they do.

Representative Jim Morris asked for comparisons for the southern region averages since that was the norm by which they usually judge themselves.

Tommy Teague replied that he could get that for the group.

Representative Jim Morris inquired as to whether or not the mental health aspect had remained constant.

Tommy Teague answered that mental health remains constant. He said that it did not fluctuate much. He said that the mental health benefits that they now offered would changed July 1st to comply with Federal Mental Health Parity Act that will go into effect in July. So we will have to change the benefit structure for mental health and substance abuse, for example you can no longer have a separate deductible for a mental health substance abuse benefit, it would have to be paid as part of the medical benefits.

Representative Mike Danahay asked if the 14% for the drugs were pharmaceuticals?

Tommy Teague responded, yes sir, prescription drugs.

Representative Mike Danahay stated that figure was pretty good and asked if that was negotiated.

Tommy Teague answered that they go out on bids for a pharmacy benefit manager who had contracts with pharmacies and pharmaceutical chains throughout the nation and so they received discounts off of the cost. Also they were pushing very hard for the membership to use generic prescriptions. They were up over 60% generic utilization rate for the membership as a whole. For every percentage rate you increase generic utilization you save about a million dollars. That percentage had increased about 3% in the last year.

Representative Mike Danahay asked if they had seen that percentage vary any.

Tommy Teague replied that the cost of prescriptions continue to increase. It has gotten to be a bigger percentage of the total payout, but they have what he thought was a very good program to encourage utilization of generics. They had a benefit structure whereby the member pays 50% up to $50. If they use generics they pay less. He said the handout breaks down those individuals who have medicare and those who do not. As mentioned in the earlier presentations, some state employees do not have 40 quarters and will not be eligible for social security. Some of them will never be eligible for medicare. For those state employees, many times OGB is their only source of health coverage. Forty one percent of those retirees do not have medicare, either because they have not reached medicare age yet or they were not eligible and will never be eligible for medicare. He said that for 59% of those retirees medicare is primary. He said that the rate for those retirees for whom medicare is primary, the rate is much lower because they are the secondary payor for those people. He said that they also administer a life insurance program, group term life. The state pays 50% of the cost for employees and retirees. The employee pays a premium for dependant life and there is reduced coverage for retirees on the July 1st after reaching age 65 and after reaching age 70. So there is a basic life insurance that pays $5,000 for the employee and either $1,000 or $2,000 for dependants. There is also the basic plus supplemental life insurance policy that pays 1 1/2 times the salary up to $50,000 for the employee.

Representative Jim Morris asked if term life was the only plan.

Tommy Teague answered, yes, it is the only plan that they administer. There are other supplemental polices that you could get payroll deductions for, some other types of life insurance plans where the employee pays the entire cost, but they do not administer those. Finally, the Governmental Accounting Standards Board known as GASB adopted a policy statement, GASB 45, that essentially required public entities to begin recording an accounting for future retiree liability on a current year basis. Historically, public entities, such as states, counties, municipalities paid for retiree benefits on a pay-as-you-go basis. So if your retirees were going to cost you $300 million dollars this year, then that was what your liability was stated as being. The GASB 45 policy requires the calculation of the present day value of future retiree benefits so that the value is calculated for all active employees and retirees as to what the future benefits are that they are likely to receive. He said that it was known as the "other post-employment benefit" liability, because it was all post employment benefits other than pensions. It was known as the OPEB (other post employment benefit) liability which includes health benefits, dental, vision, prescription drug; life insurance, long term disability. He said the biggest component of that being the cost of health care for retirees.

Representative Jim Morris asked how much that liability was.

Tommy Teague responded that the liability was calculated to be $13.7 billion over the next 30 years. The calculation was based upon the premise that the required annual contributions would be made each year to pay down the liability. There are no annual contributions being made, so that liability would continue to increase as more people retire and as more people are hired. It is all based upon the participation schedule that says if you are with the state for "X" number of years, the state is going to pay "X"% of your health premium into retirement and so if you are with the state 20 years, the state is going to pay 75% of your health insurance coverage into retirement and 75% of the coverage for your dependant So this OPEB liability is based upon that promise that the state has made to pay that percentage of your health coverage when you retire.

Representative Jim Morris asked how many school boards participated in the OGB.

Tommy Teague replied that they had approximately 46 school systems. He said that this liability did not include school systems' liability, this liability was a liability for state entities. State entities that were covered within the state's annual financial statement. He said that there was a bill passed last year (2008) that created a fund for money to be paid as a vehicle to pay down this liability. The GASB 45 requires you to calculate it and to show it on your annual statement, but it doesn't require you to fund it. But that liability is calculated every year and this year's calculation was $13.7 billion over the next 30 years.

Representative Jim Morris asked who did these calculations.

Tommy Teague answered that they had an actuarial firm that they contract with - Mercer. They do the calculations every year based upon information that is provided to them by us and by state agencies and retirement systems, based upon salary, date of hire, when you are expected to retire, mortality tables and so forth and they come up with a calculation every year as to what that liability is and it had to be included in the annual financial statement.

Laura Gail Sullivan commented that he had stated that these were not constitutionally guaranteed benefits the same way the retirement benefits were guaranteed. That it was only set in statute and then he talked about the calculation being made based on the state's promises and asked for an explanation of those two statements and whether the state's promises could be changed for current retirees, current employees or future employees.

Tommy Teague responded that both the contribution amount and the participation schedule were statutory. The Legislature could change those at any time. The legislature could decide to change that for new hires - hired after a certain date. That the contribution would be different, that participation schedule would be different or you could say that effective a certain date we are going to pay "X" for employees and retirees and we are going to change the contribution schedule to pay something different. It is not a constitutionally protected benefit - it is statutory and subject to change. Though again, like the retirement system, there were two different committees that studied the Office of Group Benefits in the late 1980's and in early 2000's and, at that point, Group Benefits was not financially sound and these contribution levels and the participation schedule were a result of those study committees. It resulted in the Office of Group Benefits regaining a sound financial footing and having the funds on hand to pay benefits as they become available and funding our incurred, but not reported, liability every year.

Representative Jim Morris asked if the committees that he mentioned were in the realm of the OGB and when was the last time that they met.

Thomas Benoit replied that the most recent committee meeting was in 2002/2003. They were study commissions established by executive order.

Laura Gail Sullivan asked for clarification purposes and used herself as an example stating that if she was a state employee and had 25 years, but was only age 53, so she needed to be a little bit older to retire - to leave service and immediately retire and begin drawing benefits. If she left service now and waited two years to begin drawing her retirement benefit when could she continue her participation in group benefits or could she pick it back up when she I retired.

Tommy Teague answered if you leave state service before you are eligible to retire, you will lose your ability to remain covered by group benefits other than the federal mandated COBRA participation period. But if you have a break in service, if you leave state service and then retire two years later you can't get your health coverage back when you retire. You have to take your health coverage with you immediately upon retirement so you would have to have essentially no break in service between your active service and your retirement. If you have a break in service you are not eligible to pick your health coverage back up when you retire.

Laura Gail Sullivan inquired as to whether or not COBRA was a maximum of two years.

Thomas Benoit answered replied 18 months in most cases. He then commented that in the example that Laura Gail had given, if an individual had 23 1/2 years of service and left state service, but continued their COBRA coverage for the maximum 18 months, then became eligible to draw a retirement stipend they could move from COBRA coverage into retiree coverage under those circumstances.

Laura Gail Sullivan asked if they would have to have continuous participation in group benefits whether its as an active through COBRA payments and then into retirement. So in the example because there would be a six month break, they could do the 18 months of COBRA, but after that they would not be in group benefits and then could never be in group benefits in retirement.

Tommy Teague answered yes, that was correct and the other component to that is that once you retire, if you ever drop the group benefits coverage, you can't ever get it back. So if you retire and then decide this is a little bit too much for me, I am going to drop it because I think that I can get other coverage over here. If you drop it you have lost it forever, you can't get it back

Representative Jim Morris asked why was that?

Tommy Teague replied that is was simply that no plan, including the Office of Group Benefits could sustain the adverse selection of people being able to drop coverage and then get back in when they got sick. The whole concept is that everyone in the plan is going to pay whether you are well or whether you are sick and the well people are essentially paying for the sick people. If you allow people to drop coverage and then pick it back up when they got sick, then you would never be able to afford coverage. Actives could drop it and then pick it back up, but they would then have a pre-existing condition limitation for a period of time. But retirees, if they ever drop it you can't ever get it back.

Laura Gail Sullivan stated the concept at LASERS and TRSL is "deferred vested". If you leave with 25 years, but are not 55, you could wait until you were 55, then draw your full benefit without actuarial reduction. That would not necessarily be someone who would be sick, it would just be someone who had reached their ability to retire without the reduction, but because you do not have a vesting schedule instead you have a participation schedule, once participation is discontinued, then the schedule no longer applies.

Tommy Teague answered that is correct. The other thing that we do to try and minimize the liability is if you become eligible for medicare we require that you take Part B. That you pay the premium for Part B of medicare so that we will be secondary payor otherwise, they were not going to pay any Part B benefits unless that coverage was elected.

Representative Jim Morris expressed interest relative to contributions versus the member paying and the state paying on the dependant aspect of the program and asked if that was what most retirement systems across the southern region did.

Tommy Teague replied that was a rich benefit, is a rich contribution. Most private industries would not pay that type of percentage and most other states don't pay that type of percentage for retirees.

Representative Jim Morris commented about the private sector and the benefit being more like 60/40.

Tommy Teague responded that he did not know for sure, but he said they had some tables on that and could provide the group with a copy of same. He said in many cases they

- many employers are going to a defined contribution schedule rather than a defined benefit plan like we have for health coverage.

Representative Jim Morris asked that the group be furnished with a copy of those tables.

Elizabeth Murrill asked for a copy of a table that just stated what the contributions were and what other states contribute so that they could see comparatively across the United States what the different state governments were doing.

Tommy Teague answered yes, we could provide that to the group as well.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called on Chris Burton from the Deferred Compensation Plan.

Chris Burton, Senior Account Executive, Great West Retirement Services. She said that Great West had a long relationship with the state of Louisiana as the plan administrator for the 457 Louisiana Deferred Compensation Plan. This plan was both a voluntary and a supplemental plan. It is a defined contribution plan unlike the pension plans that are defined benefits that pay out to a formula and are, in most cases mandatory. Because the plan is voluntary and supplemental, they have the job of getting the word out, the job of all administrative record keeping, communications, and education of employees relative to the plan. This was done in a number of different ways, one being new employee orientation.

Orientation could be a short, medium or long presentation however much time they were allowed by each agency. It was her belief this gave the employee the best chance of opting into the plan at the onset of their employment instead of waiting until they see retirement on the horizon. Besides the employee orientation, they also do seminars and servicing dates at various agencies where they would be at a certain agency all day long and the employees could set up 15 to 30 minute individual appointments with them in order to take care of their own personal needs. They are also on the agenda for the LASERS retirement seminars throughout the state.

She said that the number one reason why people participate in this plan was to reduce their tax liability. Some participants just want to accumulate a nest egg. Not every employee was going to stay long enough to qualify for DROP and if they participated in deferred comp from the beginning of their employment until the end they could very easily accumulate a nest egg to leave with. The reason for this supplemental account is to build a bridge or fill in the gap between what the pension was going to pay and a person's financial need in retirement. Most people do not retire at 100% of their salary. Deferred comp could also be used as a roll over vehicle. You could consolidate all of your assets from other jobs. If you had a 401(K) with two or three other employers, that could be rolled into this plan.

If you do stay long enough to participate in DROP you will have extra money in your paycheck freed up that does not go to the pension plan anymore, so they encourage state employees to put, since they have done without that money for 25 or 30 years already, to continue doing without it while going through DROP, that money into the deferred comp. They could save an additional 71/2% to 8% of their salary, extra without the take home pay going down one penny. There is also annual leave that is accumulated that you are paid for upon retirement that could be deposited into a deferred comp account instead of receiving it all in a paycheck and being subject to withholdings. She said the plan basically had to do with retirement so people really needed to know about the program before the fact rather than after the fact. Their excess leave, which applies to those members who are participating in the LASERS program, could be rolled over into deferred comp to.

A member could purchase service credits which is a great benefit to employees who might need to buy extra time. If they have an account set up from the beginning when they get ready to retire, if they wanted to, they could purchase refunded time that they had taken out of the system or in the case of LASERS buy up to five years of air time. If you use deferred comp dollars to do that you would be making a tax free purchase because that would not be considered a taxable event.

She said this was a defined contribution plan so what you got out of the plan would be what was put in plus or minus your earnings. So how to invest your money becomes a big point of concern for most of the participants. The portfolio provides every asset class; however, under the plan's contract they could not give personal specific advice to employees. There is a service in the plan to help employees diversify their portfolios if they want. They have a very low risk option that people will sometimes take during difficult times; however, they also have the option of being fully diversified and having their money professionally managed if they so choose. They can opt out of contributing participation at any time. She said that there was no age requirement or restrictions on taking money out of the 457 plan. The only restriction was that you no longer be employed. So it is your employment status not your age that was the key to making withdrawals. You do not have access to this money while you are on the job under normal conditions, however, there are always exceptions. They have a loan provision where employees could borrow their own money, but they must pay it back to themselves. They also have a hardship clause. This would be for an unforseen emergency that the IRS agreed was an unforseen emergency, then they would be allowed to totally withdraw the money in their account while they were on the job.

The plan has local representatives throughout the state. She said that the handout showed the contribution limits for this year and said people under age 50 could shelter up to $16,500 this year in the deferred comp plan. If they were 50 or over, they could go up to $20,500. There is a standard catch up option that they would have to qualify for if they wanted to catch up. The earliest that could be done would be three years prior to their retirement eligibility, then they could go up as high as $33,000. She said the plan offered an additional tax credit for employees who were eligible. One other point they want to make was the time value of money factor, the sooner you start in a plan the more money you are going to have at the end. This program is at no cost at all to the employer.

Representative Jim Morris inquired about the participation rate.

Chris Burton answered that there was about 40,000 people in the plan, but a lot of those were already retired. It was her belief that there are about 25,000 active participants.

**NOTE: A copy of the presentation was supplied to the members. Please see handout for more detailed information

Representative Jim Morris called on the Shannon Templet from Civil Service.

Shannon Templet, Director of Civil Service speaking on Louisiana's current plan for leave and holiday pay for state employees. Medical and vacation leave benefits for classified employees are governed by Civil Service rules which were established by the State Civil Service Commission. Leave benefits for unclassified employees are governed by executive order issued by the governor. She said she was going to talk about leave benefits for classified employees, but noted that the executive order BRJ 2864 which governs unclassified employees right now was extremely similar to the benefits for classified employees. She said holiday pay for both classified and unclassified employees was governed by R.S. 1:55 (B). She started with medical leave and said Civil Service rules provide a uniform sick leave benefit to all classified employees. She said that rule was restrictive in some ways, such as employees could only use sick leave for their own personal illness or injury, for medical appointment or to seek out any type of treatment. In addition to that, each agency could set its own procedures and policies on how they allow this and what type of documentation they required from doctor certification of illnesses or return to work policies. Accrued sick leave is the only short term disability protection that is provided for state employees. If an employee has to have surgery or suffers an illness and has an extended absence, then they use their sick leave and once exhausted, they could be placed on leave without pay or they could be separated from state service. Civil Service rules allows agencies the option of establishing a crisis leave pool which could be used to provide reduced income in limited situations to employees who have exhausted all of their leave.

Representative Jim Morris asked if an employee could give their time to someone else.

Shannon Templet answered if their agency had an established crisis leave pool. They can not give sick leave, they can only donate annual leave. Employees earn sick leave at a graduated rate based on their length of service. They start earning 12 days a year with one to three years of service and that increases to a maximum of 24 days a year with 15 plus years of state service. There is no cap on the amount of sick leave that an employee could carry over year after year. Sick leave is the only provision offered for short term disability for state employees. They had a survey done to compare their sick leave benefits with other employers. These surveys indicated that the average number of sick days earned in private industry was nine per calendar year. The average amount in the southeast area and central state government area was 13.5 days per year and the average between all other governments surveyed was 13 days per year. Louisiana, being a graduated rate earns anywhere from 12 to 24 days a year depending on length of service. The survey also showed that the percentages of other entities that allow employees to carryover unused sick leave from year to year, even private industry. The provision of short term disability insurance was a predominant practice in both private and public sectors. Louisiana does not currently provide any type of short term disability insurance other than the provision that employees could bank their unused sick for future use. The sick leave benefits are standard for all classified employees in all agencies.

Civil Service rules do provide that an agency can establish a crisis leave pool policy which would provide partial wage replacement to employees who have run out of available sick leave. The Civil Service rules set guidelines for these crisis leave pools and the agencies set their own policies within those guidelines. A crisis leave pool provides a way for agency employees to donate their unused annual or vacation leave, they cannot donate sick leave. They can only donate a maximum of 30 days of leave to the crisis leave pool. Employees in crisis situations could then apply to receive leave from the pool. No employee may receive more than 75% of his or her salary for more than 30 days. Within these limits, agencies using crisis leave pools set their own standard for defining crisis eligibility, limits on donation levels and the process for granting the use of leave. A number of agencies have chosen to establish these types of policies. Some limit the use of crisis leave to the employee's own illness or injury and others do allow usage for the care of family members who are suffering from an illness or injury.

When an employee separates from state service, his or her unused sick leave stays on the books for five years. If the employee returns to state service, that sick leave is re-credited to them. When an employee retires, his unused sick leave can be converted to service credit for purposes of retirement or the employee may choose to be paid for the present value of the leave at an actuarially reduced amount. Unused leave can not be used to qualify for retirement, it can only be used to add to the years of service which is used in the calculations of the retirement benefit or to be paid actuarially a lump sum amount.

Representative Mike Danahay inquired relative to the accumulation and asked if this was in addition to or separate from what they would receive under the Family Medical Leave Act.

Shannon Templet answered that the Family Medical Leave Act served as an umbrella over the sick leave and the vacation leave, so it is not in addition to.

Representative Mike Danahay commented so it's the state's plan under that guise.

Shannon Templet replied that the employee would not get additional leave under the Family Medical Leave Act. If they have a qualifying condition from the Family Medical Leave Act they are eligible to use their sick leave or their vacation.

Representative Jim Morris asked for figures on actual days that employees use for sick leave?

Shannon Templet responded they could get that data for the group. Like sick leave, annual leave benefits for classified employees are governed by the Civil Service rules set by the Civil Service Commission. Annual leave could only be used with a supervisor's approval. Each agency sets its own approval policies and procedures. Unlike sick leave, which can only be used for employees own personal illness or medical need, annual leave could be used for any purpose. Employees generally take annual leave for vacation, to conduct personal business, to care for an ill or injured family member such as a child, spouse, parent, or for maternity leave, etc. They can use this for whatever purpose they want. While the purpose for which annual leave could be used is unlimited, the ability to use it is strictly at the discretion of the agency. Annual leave can only be used when an agency grants permission for the employee to use that leave. The rate at which the employee earns annual leave is identical to the rate at which they earn sick leave, which starts at 12 days a year for new employees and increases to 24 days a year with 15 years of service or more. She said that the graduated annual leave earnings rate was a common practice among both the public and private sector. The public sector employees generally earn an average of two days more per year than private sector employees based on the different years of service that they have. Unused annual leave is handled in the same manner as unused sick leave. It can be carried forward from year to year and there is no cap on the amount of annual leave that may be carried forward. Unlike sick leave, there is a provision for limited payout of unused annual leave when an employee leaves state service. That severance payout is limited to 300 hours or 37.5 days. Like sick leave, annual leave that is left over can be converted to retirement credit or paid in an actuarially reduced lump sum upon retirement. Allowing unused annual leave or vacation time to carry over is a common practice among all employers both public and private. Although the majority of employers allow unused leave to be carried over, they do impose some type of cap on the amount that can be accumulated.

Representative Jim Morris asked if there were any costs associate with this, cost to the state?

Jean Jones, Deputy Director, Louisiana Department of State Civil Service answered that they did not have figures on the dollar value of the leave, but could work on getting some information on that for the group. One aspect when looking at leave and carrying it forward, earning leave now this week today and taking it next week the value of it would be their current salary. As it accumulates, if it were taken a year from now, then the time away from work would be equated to the salary at that time.

Shannon Templet stated that some employers use a combination of a carry-over and cash payment as an incentive to limit the use of leave. Louisiana does not have a limit on the amount of unused leave that could be carried forward, but also does not offer any type of cash payment option if the leave was not used, other than the 300 hours leave upon separation. Annual leave can only be used when permission is granted by the agency and the primary consideration in granting that leave must be the efficient and effective operation of the agency. Employees in some agencies, particularly, in the 24 hour facilities, such as prisons, hospitals and other residential facilities are frequently required to work overtime. These overtime balances must be used before any annual leave balances. Employees who work significant amounts of overtime in those types of facilities are sometimes unlikely to be granted any annual leave, because they would need to use their overtime leave first. Civil Service rules also allow agencies to set work schedules to best serve the agencies' needs.

Many agencies use flexible work schedules to help minimize leave use and extended service hours.

Representative Jim Morris inquired about the days earned for service and asked whether or not that had been changed?

Jean Jones responded that she thought it had been the same rate for about 30 years. She said that they could go back and see exactly when the rule was adopted.

Shannon Templet commented that those rules were set by the State Civil Service Commission. She said the last thing she wanted to talk about was Holiday pay. State employees' holidays were established by R.S. 1:55 (B) and it established 9 mandated holidays and it authorizes the governor to be able to declare additional holidays such as Memorial Day or Christmas Eve. State employees generally get between nine and twelve holidays a year.

She said in many other jurisdictions and in the private sector employees receive personal days. These personal days are given in addition to their regular holidays and vacation days. In some jurisdictions the number of fixed holidays had been reduced by replacing one or more fixed statewide holidays with personal days. This enables the agencies to reduce the number of days the offices are closed while continuing to maintain competitive benefit levels. Louisiana currently does not offer any personal days. The number of state holidays in Louisiana is very comparable to the total of state holidays and personal days offered by other employers.

Representative Jim Morris asked if there was any other business for the Group, then announced that Civil Service would be back at the next meeting to deal with some of the myths associated with Civil Service. He scheduled the next meeting for Tuesday, September 8, 2009, at 9:00 a.m.

ADJOURNMENT

Representative Jim Morris made a motion to adjourn without objection. There being no further business, the meeting was adjourned at 12:09 p.m.

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Representative Jim Morris, Chairman

10/20/09
Date Approved