STATE OF LOUISIANA
LEGISLATIVE ACTUARY

2003 ACTUARIAL REPORT
ON LOUISIANA PUBLIC
RETIREMENT SYSTEMS

November 2004

John E. Sondergaard, E.A., M.A.A.A., F.C.A.
Legislative Actuary

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November 30, 2004

The Honorable Kathleen Babineaux Blanco,
Governor of the State of Louisiana

The Honorable Joe R. Salter,
Speaker of the House of Representatives

The Honorable Donald E. Hines,
President of the Senate

RE: 2003 Annual Actuarial Report on Louisiana Public Retirement Systems

The Legislative Actuary is pleased to submit the annual 2003 Actuarial Report on Louisiana Public Retirement Systems in accordance with Louisiana statutes R.S. 24:513C(1) and R.S. 11:271C(2). The actuarial and financial status of the thirteen state and statewide retirement systems is summarized as of their Fiscal Years Ending 2003 in the following sections:

- **Executive Summary**
- **Employer Funding for Pension Benefits**
- **Benefit Formulas, Retirement Eligibility, and Contribution Rates**
- **Actuarial Concerns – Funding Issues including Legislative Concerns**

The report is also available at www.lla.state.la.us/actuary.htm along with comprehensive tables and graphs of the state system's Unfunded Accrued Liability obligations, including projected amortization schedules and outstanding balances.

Please direct any questions concerning this report to Mr. John E. Sondergaard, Legislative Actuary, at the above address.

Respectfully submitted,

John E. Sondergaard, EA, MAAA, FCA
Legislative Actuary

Enclosure

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

OFFICE OF LEGISLATIVE ACTUARY

2003 Actuarial Report on Louisiana Public Retirement Systems

Purpose of Report

2003 Report

The 2003 Actuarial Report on Louisiana Public Retirement Systems was prepared by the legislative actuary for the legislature, the governor, and other interested parties involved in the retirement systems' decision making process. This comprehensive actuarial report summarizes the financial status of the thirteen state and statewide retirement systems for fiscal years ending in 2003. It also outlines matters for legislative review that would enhance the stability and funding of the public retirement systems. The report includes data for the four state retirement systems and nine statewide retirement systems.

Louisiana Statutes

Pursuant to *Louisiana Statutes*, this report is being submitted to the governor and the legislature detailing the financial and actuarial history of the Louisiana Public Retirement Systems. The reports shall also include comments on any findings that may materially affect the actuarial soundness of the retirement systems.

State Systems

For the four state retirement systems, benefits are guaranteed under the state constitution.

LASERS **Louisiana State Employees' Retirement System**
TRSL **Teachers' Retirement System of Louisiana**
STPOL **State Police Pension and Retirement System**
LSERS **Louisiana School Employees' Retirement System**

Statewide Systems

For the nine statewide retirement systems, benefits are not guaranteed under the state constitution.

ASSR **Louisiana Assessors' Retirement Fund**
CCRS **Clerks of Court Retirement and Relief Fund**
DARS **District Attorneys' Retirement System**
FRS **Firefighters' Retirement System**
MERS **Municipal Employees' Retirement System (Plans A&B)**
MPERS **Municipal Police Employees' Retirement System**
PERS **Parochial Employees' Retirement System (Plans A&B)**
RVRS **Registrars of Voters Employees' Retirement System**
SPRF **Sheriffs' Pension and Relief Fund**

Overall Funding for Pension Benefits

Actuarial Funding

The accumulation of assets required to fund any retirement program is contingent upon the actuarial cost method used by the system, the actuarial assumptions employed in the calculations, and the asset method adopted in the valuation process. Of primary importance is the selection of interest rate assumptions, which includes long term expectations for inflation and risk. Interest rates used in the 2003 valuation of the thirteen state and statewide plans range from 7.0% to 8.25%.

Contributions

Pension benefit liabilities for all thirteen state and statewide retirement systems are funded through contributions from employers, members, various taxes, revenue sharing funds, Insurance Premium Tax Fund (IPTF), legislative appropriations, and through investment earnings on plan assets.

Employer contribution rates are determined each year through an actuarial valuation. Member contribution rates are fixed by statute and may vary for different group classifications within a retirement system.

For FRS, MPERS, and SPRF a portion of the employer contribution rate is set by statute. Any excess required above the statutory rate may be paid from the IPTF. The IPTF funds allocated to these three systems in previous years had been sufficient to meet the combined excess employer contribution. However, in FY 2003, the shortfall after available IPTF funds was $14.2 million for FRS, $12.1 million for MPERS, and $8.1 million for SPRF. For FY 2004, the projected shortfall after available IPTF funds is $18.5 million for FRS, $25.5 million for MPERS, and $10.2 million for SPRF. The employer is responsible for any additional funding requirements not covered by IPTF allocations.

Investment Income

Investment earnings include all income earned under the trust such as dividends, interest, and capital gains or losses, and ***are essential to meet the long range projections and assumptions under the actuarial funding method.***

Employer Funding for Pension Benefits - State Retirement Systems

General

The state of Louisiana is primarily responsible for funding the actuarial liabilities of the four state retirement systems - defined benefit plans - through general fund appropriations, either directly or as transfer payments to local school districts. The annual employer contribution includes the normal cost payment and an amortization payment toward the Unfunded Accrued Liability (UAL). The UAL is that portion of the actuarial accrued liability not funded by the actuarial value of the system assets on a valuation date. If assets exceed the actuarial accrued liability then the system is fully funded. The normal cost is that portion equal to the year's expected additional benefit accrual.

Guaranteed Payment

Our state constitution guarantees an annual employer payment for the four state systems sufficient to pay the normal cost and amortize the Initial Unfunded Accrued Liability (IUAL), established as of June 30, 1988, by the year 2029; by 2009 for State Police. If the legislature fails to provide this payment, the state treasurer must pay the required amount from the state general fund upon a warrant issued by the administrative authority of the retirement system affected by the shortfall. ***The constitution requires that the systems' liabilities must be funded on an actuarially sound basis.***

UAL Balance (Valuation)

As of June 30, 2003, the four state systems had a combined Valuation UAL balance of $9.4 billion:

VALUATION UAL BALANCES
(as of 6/30/2003)
($millions)

System	Actuarial Accrued Liability (AL)	Valuation Assets (VA)	Valuation UAL
LASERS	$9,796.3	$6,462.9	$3,333.5
TRSL	$17,196.8	$11,664.9	$5,531.9
STPOL	$447.7	$232.0	$215.7
LSERS	$1,730.8	$1,369.6	$361.2
Combined	**$29,171.6**	**$19,729.3**	**$9,442.3**

The actual cost for FY 2004 to fund the $9.4 billion Valuation UAL for funding purposes is $559.8 million. This represents about 61.0% of the $918.1 million of total employer costs required to actuarially fund the four unfunded state systems.

Act 588

Act 588 of the 2004 Regular Session made substantial changes to existing statutes affecting employer contributions to the Louisiana State Employees' Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), and School Employees' Retirement System (LSERS). Changes were:

(1) The Act amended rules for amortizing bases established subsequent to the IUAL for actuarial gains/losses and for changes to assumptions, funding and asset methods, or plan provisions. Effective July 1, 2004, bases established for FY 1999 for LASERS (FY 2001 for TRSL and LSERS) and thereafter are re-

amortized over a thirty (30) year period from the year of occurrence, with payments increasing by 4.5% annually. Bases established prior to FY 1999 for LASERS (FY 2001 for TRSL and LSERS) are re-amortized as level dollar amounts from July 1, 2004 through June 30, 2029 (25 years). New bases established for FY 2004 and thereafter will be amortized as level dollar amounts over a thirty (30) year period. **Amortization periods for the IUAL and employer contribution variance are not affected.**

In compliance with legislation, the Public Retirement Systems' Actuarial Committee (PRSAC) accepted the revision of existing projected employer contribution rates for fiscal year 2005 to the following: LASERS 17.8% (from 19.1%), TRSL 15.5% (from 17.3%), and LSERS 14.8% (from 18.8%).

Provisions that apply only to LASERS and TRSL:

(2) Requires a minimum annual contribution of fifteen and one-half percent (15.5%) until the IUAL is fully funded. The excess amounts will be retained in an Employer Credit Account (ECA) to be used to reduce any UAL created before July 1, 2004.

(3) Employee Experience Account (EA) and cost-of-living increases (COLAs):

- Eliminates existing or future negative EA balances and removes current provisions requiring the EA to share in actuarial investment losses, only sharing in investment gains. The balance is limited to two years of COLA reserves. Any negative EA balance on June 30, 2004 will be added to the UAL.
- Requires legislative oversight and approval to grant a COLA.
- For LASERS: Provides inflation adjustments of the seventy-thousand dollar benefit ceiling based upon the CPI index after July 1, 2004.

Projected Employer Contributions

LASERS

The total required employer contribution is paid directly from general fund appropriations, self-generated funds, and from the federal government for federally funded programs.

Projected Employer Contributions ($millions)		
LASERS:	**FY 2004**	**FY 2005**
Actuarially Determined	$310.8	$359.7
Percent of Payroll	15.8%	17.8%
15.5% Minimum Required	n/a	$313.2
Employer Contribution	**$310.8**	**$359.7**
Percent of Payroll	***15.8%***	***17.8%***

Act 588 of R.S. 2004 requires a minimum employer contribution rate of at least fifteen and a half percent (15.5%) until the IUAL is paid off.

TRSL

The total required employer contribution is paid directly from general fund appropriations, local school districts, self-generated funds, and from the federal government for federally funded programs.

Projected Employer Contributions ($millions)		
TRSL:	**FY 2004**	**FY 2005**
Actuarially Determined	$461.0	$498.9
Percent of Payroll	13.8%	14.5%
15.5% Minimum Required	n/a	$560.0
Employer Contribution	**$461.0**	**$560.0***
Percent of Payroll	***13.8%***	***15.5%***

* Based on total projected payroll.

Act 588 of the 2004 Regular Session requires a minimum employer contribution rate of at least fifteen and a half percent (15.5%) until the IUAL is paid off. The minimum rate will be required for TRSL in fiscal year 2005 since it is greater than the actuarially determined contribution rate.

Act 588 establishes an **Employer Credit Account (ECA)** to accumulate excess employer contributions over the actuarially required employer amounts, and may only be applied to reduce unfunded accrued liabilities created prior to July 1, 2004. As of June 30, 2003 the account has a $0 balance.

STPOL

The total required employer contribution is paid directly from general fund appropriations and the IPTF (Insurance Premium Tax Fund).

Projected Employer Contributions ($millions)		
STPOL:	**FY 2004**	**FY 2005**
From General Fund	**$21.0**	**$27.3**
Percent of Payroll	***63.8%***	***59.6%***
IPTF (Insurance Premium Tax Fund)	**$1.5**	**$1.5**

LSERS

The employer contribution is paid from local school district funds. Prior to fiscal year 2002 this system was fully funded. As of June 30, 2003 the actuarial accrued liability exceeded actuarial assets by $361.2 million, and requires both a normal cost and an amortization payment.

Projected Employer Contributions ($millions)		
LSERS:	**FY 2004**	**FY 2005**
Actuarially Determined	$30.3	$41.4
Percent of Payroll	11.2%	14.8%
6% Minimum Required	$16.3	$16.7
Employer Contribution	**$30.3**	**$41.4**
Percent of Payroll	***11.2%***	***14.8%***

By statute the employer's contribution must be at least six percent of projected payroll.

Act 1331 of the 1999 Regular Session established an **Employer Credit Account (ECA)** which consists of accumulated excess employer contributions over the actuarially required employer amounts. The account has a balance of $5.9 million as of June 30, 2003 from which to offset future required employer contributions.

Texaco Settlement Fund

The Texaco Settlement Fund evolved from a litigation settlement with Texaco. Under the settlement, Texaco agreed to pay the proceeds to the state over a three-year period, commencing on February 28, 1994.

Based on a recommendation adopted by the Bond Commission, the settlement was paid to the three state retirement systems - LASERS, TRSL and STPOL - to assist in funding their initial unfunded accrued liabilities (IUAL). An additional allocation of $19.4 million was granted to the STPOL fund under ACT 471 of the 1997 Regular Session.

The allocated funds are treated as a separate account under the system's trust and credited with the year's actuarial rate of return. When it accumulates to the outstanding balance of the IUAL, or UAL if smaller, it will be released to fully liquidate the liability.

Based on valuation interest rates, we project that the accumulated value of Texaco Settlement Funds will assist to liquidate the applicable liability for LASERS by 2029, TRSL by 2028, and STPOL by 2007.

TEXACO FUND BALANCES
(as of 6/30/2003)
($millions)

System	Accumulated		Balance
	Proceeds	Interest	
LASERS	-$24.9	$49.6	$24.7
TRSL	$39.3	$122.8	$162.0
STPOL	$24.7	$14.3	$39.1
Combined	**$39.1**	**$186.7**	**$225.8**

LSU Unfunded Plan: A state appropriation had been required to amortize this supplemental portion of the Initial Unfunded Accrued Liability. After fiscal year 2003 this payment is not required since an amount was released from the Texaco Funds equal to its outstanding balance. The combined payoff was $185.5 million ($89.2 million for LASERS and $96.3 million for TRSL on June 30, 2003).

Employer Funding for Pension Benefits - Statewide Retirement Systems

General

Employer contributions required to fund the actuarial liabilities for the nine statewide retirement systems - defined benefit plans - come from the sources listed in items 1 through 5 below. For example, the employer contribution for statewide system ASSR comes from local appropriations, ad valorem taxes, and general revenue sharing funds as listed under items 1 through 3 below.

Sources of Employer Contribution

System	Local 1	Ad Valorem 2	Revenue Sharing 3	IPTF 4	State General Fund 5
ASSR	x	x	x		
CCRS	x	x	x		
DARS		x	x		x
FRS	x			x	x
MERS	x	x	x		
MPERS	x			x	
PERS	x	x	x		
RVRS	x	x	x		
SPRF	x	x	x	x	

1. Local appropriations from municipalities or parishes as a percent of member payroll
2. Percent of ad valorem taxes collectible by the rolls of each parish according to statute
3. General revenue sharing funds
4. Insurance premium tax funds
5. State general fund appropriations

UAL Balances

Under the state constitution, funding requirements for the nine statewide systems are actuarially determined. As with state systems, the annual employer contribution consists of a normal cost payment and, for those systems that generate a UAL under the actuarial funding method, an amortization payment to fund the UAL. As of their 2003 fiscal year end, seven of the statewide unfunded systems had a combined UAL balance of $1,045.3 million, up from last year's $818.7 million:

UAL Balances - Statewide Systems
as of June 30, 2003
($millions)

ASSR	$35.2
CCRS	$79.2
FRS	$286.3
MERS (Plans A & B)	$75.4
MPERS	$379.5
PERS Plan A	$97.4
SPRF	$92.3
Combined UAL	**$1,045.3**

Aggregate Funding

Some of the statewide systems such as DARS, PERS (Plan B), and RVRS employ an actuarial funding method that makes no reference at all to an actuarial accrued liability for prior service (Aggregate Funding Method). Therefore, there is no UAL generated under this actuarial funding technique. For these systems, all employer costs are determined as future normal cost payments.

Projected Employer Contributions

Projected employer contributions for FY 2004 for the nine statewide systems are shown in Part 3 of the section titled **Employer Funding for Pension Benefits – Employer Contribution Sources**.

Benefit Formulas, Retirement Eligibility, and Contribution Rates

Benefit Formulas

Louisiana’s state and statewide systems provide lifetime retirement benefits under a Defined Benefit pension plan. Under this type of retirement arrangement a member can rely on a promised formula income for the remainder of their retirement years. The amount is based on a member’s years of service, final average compensation at retirement, and payment election.

Formula benefits accrue at a specific rate for each year of service. Final average compensation is based on actual compensation received in the thirty-six (36) highest successive months of employment. Benefits based on final average compensation are designed to provide a reasonable replacement of pre-retirement income for long service employees. Shorter service employees receive proportionally lower replacement benefits. Current accrual rates for regular TRSL and LASERS members are 2.5%. Accrual rates for other state and statewide systems generally range from 3.0% to 3.5% for each year of service.

Retirement Eligibility

All thirteen state and statewide systems require some combination of years of service and age in order to qualify for retirement benefits. Some provide for an early retirement benefit with an actuarial reduction for the earlier payout. Vested benefits, pre-retirement survivor death benefits, disability benefits, DROP benefits, and cost-of-living adjustments are also included in the overall benefit package of each system and are payable upon meeting established eligibility and statutory requirements.

Employee Contributions

All of the state and statewide systems require employee contributions as part of the overall funding requirement to pay for the proposed retirement benefits. The contribution rates are set by statute and range from 7.0% to 9.8% of pay. The plans for Judges/Court Officers and Legislators require 11.5%.

Social Security

Social Security coverage is not available to members during their years of participation in the state and statewide retirement systems with the exception of TRSL Plan B and two statewide plans – MERS Plan B and PERS Plan B. The current accrual rate for systems covered under Social Security is 2.0% for each year of service with contribution rates ranging from 3% to 5%.

Replacement Ratios

Replacement ratios in Part 2 of the section show the income continuation that can be expected relative to salary prior to retirement. The ratios project the normal retirement benefit as a percent of the expected final annual salary for a **new member**, based on the unique features of that system. Because of the different nature of the plans covering law enforcement officers and firefighters the replacement ratios are for retirement at age 55, versus age 65 for other employee groups.

The graphic exhibit provides a comparison of the systems' ***replacement ratios*** and ***employee paid portion of benefit costs***, including interest, for retirement benefits payable at age 55 after 25 years of service for a new member. Values are based on current benefit provisions (including legislation of the 2004 Regular Session), interest rates, and salary increase assumptions of the retirement system. Results show replacement ratios fall between 71% to 85% for all state and statewide plans, except regular LASERS (state employees) and TRSL (teachers), which are 60% and 59%. It includes the new Public Safety Plan (79%) which replaced the old Corrections Plan (59%).

Contribution Rates

Part 3 of this section focuses and compares the combined contribution required from the various sources of each system during fiscal year 2004. A graphic exhibit illustrates ***the total of all contribution sources (public and member) relative to payroll***, and also gives the ***member rates***. The combined contribution requirements, employer (public sources) and member rates, varied from 17.6% up to 76.4% of member payroll for 2004 fiscal years.

Actuarial /Legislative Concerns - Funding Issues

Pension Problems

In this section of the report we address some of the concerns and issues impacting actuarial funding and pension benefits. Addressing potential pension problems in advance enables legislators to consider corrective steps to assure that our retirement systems are actuarially sound. Of particular importance are the two largest systems, LASERS and TRSL, representing about 72% of the 345,500 active and inactive members of the combined thirteen state and statewide retirement systems. Actuarial concerns are highlighted in order to give legislators a quick reading of pension issues that may require further attention.

EMPLOYER FUNDING FOR PENSION BENEFITS

1. Funding Methods

Funding Method

Although the employee contribution rate is fixed by statute, the employer contribution rate needed to support benefits is determined by the retirement system's actuary, to be reviewed by the legislative actuary and considered by PRSAC (Public Retirement Systems' Actuarial Committee) for adoption and recommendation to the legislature. The determination is accomplished by performing an annual valuation that calculates the actuarial liability of future expected benefit payouts. An actuarial cost method allocates the liability between future normal cost payments and amortization payments on the unfunded accrued liability (if any). All actuarial funding methods target to have contributions plus trust earnings accumulate to meet ultimate expected system benefits and expenses.

SYSTEM ACTUARIAL FUNDING METHODS
as of June 30, 2003

State Systems:

System	Funding Method	Creates UAL
LASERS	Projected Unit Credit	yes
TRSL	Projected Unit Credit	yes
STPOL	Entry Age Normal	yes
LSERS	Entry Age Normal	yes

Statewide Systems:

System	Funding Method	Creates UAL
ASSR	Frozen Attained Age Normal	IUAL only
CCRS	Frozen Attained Age Normal	IUAL only
DARS	Aggregate	no
FRS	Entry Age Normal	yes
MERSA	Frozen Attained Age Normal	IUAL only
MERSB	Frozen Attained Age Normal	IUAL only
MPERS	Entry Age Normal	yes
PERSA	Frozen Attained Age Normal	IUAL only
PERSB	Aggregate	no
RVRS	Aggregate	no
SPRF	Frozen Attained Age Normal	IUAL only

Normal Cost

The total **Normal Cost** is that portion of the projected actuarial liability for benefits and expenses that is allocated to a valuation year under the applicable actuarial cost method. The portion of the total normal cost not funded by member contributions becomes the employer normal cost portion for the valuation year.

Accrued Liability

The portion of the total computed actuarial liabilities not funded as future normal cost payments is the actuarial **Accrued Liability.** Under certain actuarial cost methods it is the liability for benefit service already completed by the valuation population, consisting of inactive and active members.

UAL

The **Unfunded Accrued Liability (UAL)** is that portion of the actuarial accrued liability that is not funded by the system's assets on the valuation date. The **Valuation UAL** is determined relative to **Valuation Assets** for funding purposes, and consists of the unamortized values of the **Initial Unfunded Accrued Liability (IUAL)** and of the supplemental accrued liabilities that may be generated each year. These supplemental liabilities originate through actuarial gains or losses, changes in actuarial assumptions or funding methods, and any changes in benefit structures. The UAL is amortized according to the payment methods and periods specified by statute. Under some actuarial cost methods, supplemental accrued liabilities are not amortized and are funded as future normal cost payments.

Employer Contributions

Actuarially required employer contributions are determined by combining the normal cost with UAL amortization payments, along with any other cost items deemed necessary by the actuary to fund ultimate plan liabilities. Projected contribution rates are then established relative to projected payroll.

2. Employer Contribution Rates

Contribution Rates

Net employer contribution rates are shown as a percent of payroll. In addition, various retirement systems also receive supplemental appropriations from the state, ad valorem taxes, revenue sharing funds, and payments from the Insurance Premium Tax Fund (IPTF). The following contribution rates were approved by PRSAC (Public Retirement Systems' Actuarial Committee) or system adopted.

State Systems

Contribution Rates

Fiscal Year 2004

System	Actuarially Required	Projected Rate	IPTF Funding
LASERS	17.4%	15.8%	n/a
TRSL	14.7%	13.8%	n/a
STPOL	59.9%	63.8%	$1,500,000
LSERS	17.4%	11.2%	n/a

Fiscal Year 2005

System	Actuarially Required	Projected Rate	IPTF Funding
LASERS	*	17.8%	n/a
TRSL (minimum)	*	15.5%	n/a
STPOL	*	59.6%	$1,500,000
LSERS	*	14.8%	n/a

*Values based on 6/30 FYE & 2003 Valuation. The Actuarially Required Rates for Fiscal Year 2005 will be available with adoption of the June 30, 2004 Actuarial Valuations.

Ad Valorem Taxes

Ad valorem tax rates shown are a percentage of the aggregate taxes shown to be collectible by the tax rolls of each parish. For some systems, different percentages apply to Orleans Parish. Parochial Employees' Retirement System excludes Orleans and East Baton Rouge Parishes from the tax rolls. TRSL is also entitled to one percent except from Orleans Parish.

Statewide Systems

Rates for Local Appropriations
(Percent of Payroll)

Fiscal Year 2004 *

System	Actuarially Required	Projected Rate
ASSR	14.49%	12.00%
CCRS	14.32%	11.50%
DARS	3.36%	0.00%
FRS	23.64%	21.00%
MERSA	14.61%	11.00%
MERSB	9.22%	7.75%
MPERS	21.75%	15.25%
PERSA	12.66%	11.75%
PERSB	5.61%	5.25%
RVRS	7.80%	3.25%
SPRF	9.61%	9.25%

Total Public Funds
(Local Projected Rate as Percent of Payroll)

Fiscal Year 2005 *

System	IPTF FY 2004	Ad Valorem FY 2004	Revenue Sharing FY 2004	Local Projected Rate
ASSR	n/a	0.2500 %	Max	14.50%
CCRS	n/a	0.2500 %	Max	14.50%
DARS	n/a	0.2000 %	Max	3.75%
FRS (1)	$16,114,672	n/a	n/a	24.00%
MERSA	n/a	0.1875 %	Max	15.00%
MERSB	n/a	0.0625 %	Max	9.50%
MPERS (1)	$10,135,228	n/a	n/a	21.50%
PERSA	n/a	0.2196 %	Max	12.75%
PERSB	n/a	0.0304 %	Max	5.75%
RVRS (2)	n/a	0.0625 %	Max	8.25%
SPRF (1)	$10,135,228	0.5000 %	Max	9.75%

(1) FY2003 IPTF paid Firefighters $14,668,649, Sheriffs $8,689,205, and Municipal Police $8,689,205.

(2) The Ad Valorem Tax for Registrars of Voters includes the Defined Contribution allocation, if applicable.

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

3. Employer Contribution Sources

State Systems

The State of Louisiana is primarily responsible for funding the actuarial liabilities of the four state retirement systems - defined benefit plans - through general fund appropriations, agency self-generated funds, Insurance Premium Tax Fund (IPTF) allowances, or as transfer payments to local school districts. Since other funding sources that are available to the various participating employers may vary at any given time, a breakdown of their amounts is unfeasible. Sources provided below reflect the primary contribution sources for each state system. Employee contributions are not included in the amounts shown below.

Projected Employer Contribution Sources
State Systems - FY 2004*
($millions)

	Source	Normal Cost	UAL Payment	Total
LASERS	**General Fund (Primary)**	$133.2	$177.5	$310.8
TRLS	**General Fund (Primary)**	$206.0	$255.0	$461.0
LSERS	**Local School Districts**	$21.8	$8.5	$30.3
STPOL	**General Fund & IPTF (Primary)**	$4.2	$18.3	$22.5
Combined State Systems	***Combined Sources***	$365.2	$459.4	$824.6

* Values based on 6/30 FYE & 2003 Valuation.

Statewide Systems

The following tables list the funding sources for the nine statewide retirement systems. Total public funds include local appropriations, ad valorem taxes, general revenue sharing funds, and insurance premium tax funds. An initial fixed rate for local appropriations is set by statute at 9% of payroll for Firefighters and Municipal Police Systems and 7% of payroll for Sheriffs' System. Employee contributions are not included in the amounts shown below. The following contribution rates were approved by PRSAC (Public Retirement Systems' Actuarial Committee) or system adopted.

Projected Employer Contributions Sources
Statewide Systems - FY 2004*
($millions)

ASSR

Source	$ Amount	% Payroll
Local Appropriations	$3.34	12.00%
Ad Valorem Taxes	$6.06	21.78%
Revenue Sharing	$0.35	1.25%
IPTF	$0.00	0.00%
Total Public Funds	**$9.75**	**35.04%**

CCRS

Source	$ Amount	% Payroll
Local Appropriations	$8.06	11.50%
Ad Valorem Taxes	$4.59	6.56%
Revenue Sharing	$0.32	0.45%
IPTF	$0.00	0.00%
Total Public Funds	**$12.97**	**18.51%**

DARS

Source	$ Amount	% Payroll
Local Appropriations	$0.00	0.00%
Ad Valorem Taxes	$3.68	10.10%
Revenue Sharing	$0.19	0.52%
IPTF	$0.00	0.00%
Total Public Funds	**$3.87**	**10.62%**

FRS

Source	$ Amount	% Payroll
Local Appropriations	$26.51	21.00%
Ad Valorem Taxes	$0.00	0.00%
Revenue Sharing	$0.00	0.00%
IPTF	$16.11	12.77%
Total Public Funds	**$42.62**	**33.77%**

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

Projected Employer Contributions Sources
Statewide Systems - FY 2004*
($millions)

MERSA

Source	$ Amount	% Payroll
Local Appropriations	$15.36	11.00%
Ad Valorem Taxes	$3.08	2.21%
Revenue Sharing	$0.12	0.08%
IPTF	$0.00	0.00%
Total Public Funds	**$18.56**	**13.29%**

MERSB

Source	$ Amount	% Payroll
Local Appropriations	$3.62	7.75%
Ad Valorem Taxes	$1.03	2.20%
Revenue Sharing	$0.04	0.08%
IPTF	$0.00	0.00%
Total Public Funds	**$4.68**	**10.03%**

MPERS

Source	$ Amount	% Payroll
Local Appropriations	$30.47	15.25%
Ad Valorem Taxes	$0.00	0.00%
Revenue Sharing	$0.00	0.00%
IPTF	$10.14	5.07%
Total Public Funds	**$40.61**	**20.32%**

PERSA

Source	$ Amount	% Payroll
Local Appropriations	$48.06	11.75%
Ad Valorem Taxes	$3.79	0.93%
Revenue Sharing	$0.14	0.03%
IPTF	$0.00	0.00%
Total Public Funds	**$51.99**	**12.71%**

PERSB

Source	$ Amount	% Payroll
Local Appropriations	$3.02	5.25%
Ad Valorem Taxes	$0.52	0.91%
Revenue Sharing	$0.02	0.03%
IPTF	$0.00	0.00%
Total Public Funds	**$3.56**	**6.20%**

RVRS

Source	$ Amount	% Payroll
Local Appropriations	$0.25	3.25%
Ad Valorem Taxes	$1.15	15.07%
Revenue Sharing	$0.11	1.44%
IPTF	$0.00	0.00%
Total Public Funds	**$1.51**	**19.76%**

SPRF

Source	$ Amount	% Payroll
Local Appropriations	$36.29	9.25%
Ad Valorem Taxes	$9.19	2.34%
Revenue Sharing	$0.42	0.11%
IPTF	$10.14	2.58%
Total Public Funds	**$56.03**	**14.28%**

***** Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

4. Projected Employer Contribution History – State Retirement Systems

Projected Employer Contribution History
as of June 30, 2003
($millions)

LASERS

Component	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Normal Cost	$135.2	$133.2	$125.2	$116.1	$118.6
UAL Payment	$224.5	$177.5	$146.2	$123.1	$126.0
Total	$359.7	$310.8	$271.3	$239.2	$244.6
Percent of Payroll	**17.8%**	**15.8%**	**14.1%**	**13.0%**	**13.0%**
Payroll $	$2,020.9	$1,972.7	$1,922.0	$1,840.3	$1,879.2
LSU Unfunded Pmt	$0.0	$0.0	$5.1	$4.9	$4.7

TRSL

Component	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Normal Cost	$197.8	$206.0	$194.0	$180.7	$181.6
UAL Payment	$301.2	$255.0	$209.1	$194.5	$221.7
Total	$498.9	$461.0	$403.0	$375.2	$403.4
Percent of Payroll	14.5%	**13.8%**	**13.1%**	**13.1%**	**14.2%**
Minimum Requirement	**15.5%**	Act 588 of the 2004 Regular Session.			
Payroll $	$3,160.4	$3,069.7	$2,869.6	$2,668.1	$2,648.1
LSU Unfunded Pmt	$0.0	$0.0	$5.5	$5.3	$5.1

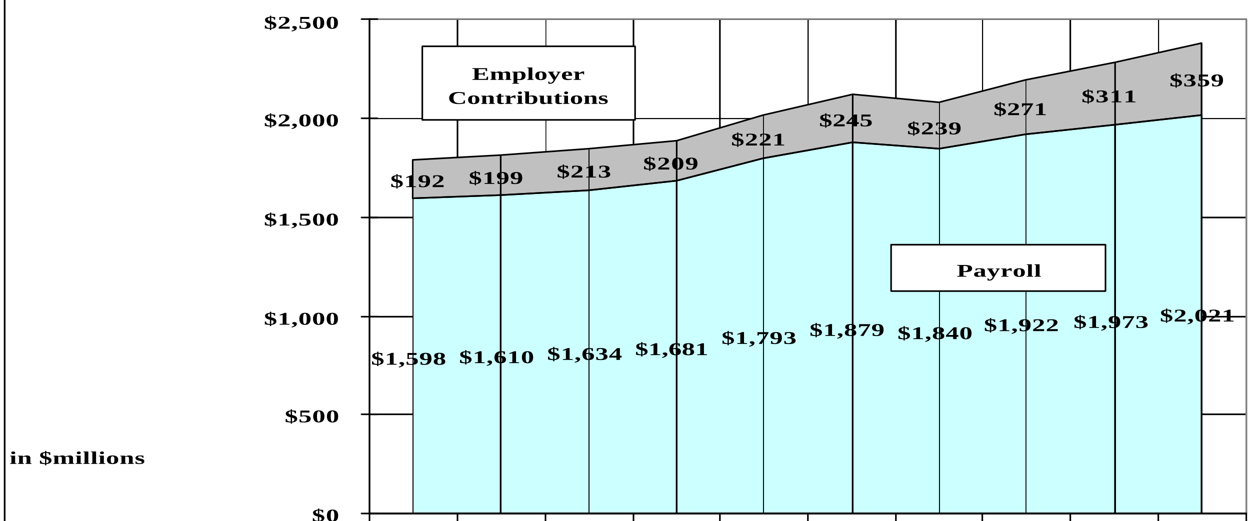
LSERS

Component	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Normal Cost	$28.4	$21.8	$20.9	$18.1	$17.1
UAL Payment	$13.0	$8.5	($2.4)	($14.4)	($13.2)
Total	$41.4	$30.3	$18.4	$3.7	$3.9
Percent of Payroll	**14.8%**	**11.2%**	**7.0%**	1.5%	1.6%
Payroll $	$278.8	$271.6	$261.3	$252.0	$243.4
Minimum Required	$16.7	$16.3	$15.7	$15.1	$14.6
6% Contribution	6.0%	6.0%	6.0%	**6.0%**	**6.0%**

STPOL

Component	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Normal Cost	$6.8	$4.2	$4.2	$4.1	$4.1
UAL Payment	$22.1	$18.3	$17.7	$16.4	$16.6
Total	$28.8	$22.5	$22.0	$20.4	$20.7
Percent of Payroll	62.9%	68.4%	65.0%	56.4%	**55.8%**
Payroll $	$45.8	$32.9	$33.8	$36.2	$37.2
% After IPTF *	**59.6%**	**63.8%**	**60.5%**	**52.2%**	n/a
* ***$1,500,000 from Insurance Premium Tax Fund effective 7/1/2001.***					

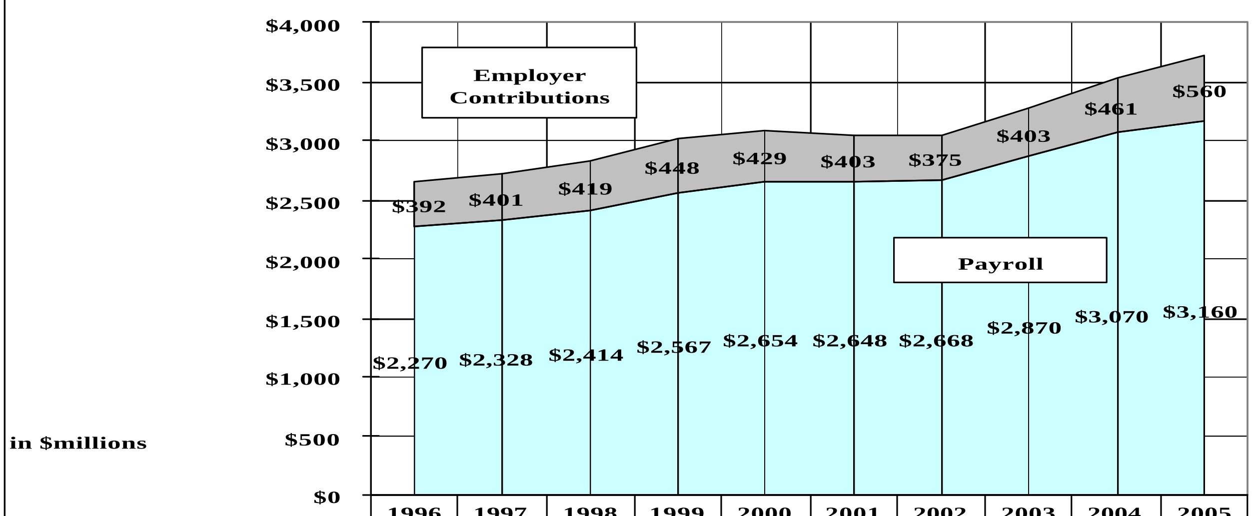
PROJECTED EMPLOYER CONTRIBUTION and PAYROLL
(in $millions)
LASERS: Employer Contribution Comparison History



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ER CONTRIBUTIONS	$192	$199	$213	$209	$221	$245	$239	$271	$311	$359
PAYROLL	$1,598	$1,610	$1,634	$1,681	$1,793	$1,879	$1,840	$1,922	$1,973	$2,021
PERCENT	12.0%	12.4%	13.0%	12.4%	12.3%	13.0%	13.0%	14.1%	15.8%	17.8%

PAYROLL ER CONTRIBUTIONS PERCENT

PROJECTED EMPLOYER CONTRIBUTION and PAYROLL
(in $millions)
TRSL: Employer Contribution Comparison History



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ER CONTRIBUTIONS	$392	$401	$419	$448	$429	$403	$375	$403	$461	$560
PAYROLL	$2,270	$2,328	$2,414	$2,567	$2,654	$2,648	$2,668	$2,870	$3,070	$3,160
PERCENT	16.5%	16.3%	16.4%	16.5%	15.2%	14.2%	13.1%	13.1%	13.8%	15.5%

PAYROLL ER CONTRIBUTIONS PERCENT

5. Insurance Premium Tax Fund (IPTF) - Assessments

The Commission deposits 0.7% (0.007) of the Net Premiums with the state treasurer for the exclusive use of the three statewide retirement systems MPERS, FRS, and SPRF, and for certain costs of STPOL. Net Premiums are the gross direct premiums received in the state in the preceding year, from applicable insurers doing business in Louisiana, less returned premiums.

Beginning July 1, 2001, allocation priorities were changed to give the first twenty-five percent of the assessment for merger funding, with first priority going to pay certain actuarial costs of the State Police Pension and Retirement System (STPOL) up to $1,500,000. Mergers are funded over a 30-year period, unless a shorter period is approved by the Public Retirement Systems' Actuarial Committee (PRSAC). A shorter period is limited to 5% of the total assessment in any one-year. The aggregate of all mergers being funded in one year could not exceed 25% of the total year's assessment.

Available Funds

Available IPTF Funds
($millions)

Written Premium Basis	For Calendar Year	Net Premium	Assessment for Deposit	Merger Limit
1990	1991	$3,301.8	$23.1	$5.8
1991	1992	$3,399.3	$23.8	$5.9
1992	1993	$3,470.8	$24.3	$6.1
1993	1994	$3,452.4	$24.2	$6.0
1994	1995	$3,897.2	$27.3	$6.8
1995	1996	$4,235.4	$29.6	$7.4
1996	1997	$4,158.0	$29.1	$7.3
1997	1998	$4,298.5	$30.1	$7.5
1998	1999	$4,424.8	$31.0	$7.7
1999	2000	$4,376.8	$30.6	$7.7
2000	2001	$4,469.4	$31.3	$7.8
2001	2002	$4,792.0	$33.5	$8.4
2002	**2003**	**$5,412.2**	**$37.9**	**$9.5**

Any remaining funds are then evenly split between the three statewide systems toward meeting the applicable portion of their actuarially required contribution. Any amounts not required by a system are divided equally as needed by the remaining systems. The IPTF allocation is applied to meet the required contribution remaining after receipt of employee and employer contributions and all dedicated funds and taxes. All unused amounts are remitted to the state general fund.

Allocation

Allocated IPTF Funds
($millions)

Calendar Year	System's Fiscal Yr Ending	Actual Deposit	PRSAC IPTF Allocation	Remainder to General Fund
1993	1994	$23.2	$8.1	$15.1
1994	1995	$24.0	$10.8	$13.2
1995	1996	$23.7	$13.5	$10.2
1996	1997	$28.0	$10.5	$17.5
1997	1998	$29.1	$12.7	$16.4
1998	1999	$30.1	$9.0	$21.1
1999	2000	$31.0	$13.6	$17.4
2000	2001	$30.6	$23.0	$7.6
2001	2002	$31.3	$31.3	$0.0
2002	2003	$33.5	$33.5	$0.0
2003	**2004**	**$37.9**	**$37.9**	**$0.0**

System Allocations

PRSAC Approved IPTF Allocations
($millions)

Fiscal Year	FRS	SPRF	MPERS	STPOL
1994	$1.1	$4.3	$2.8	$0.0
1995	$2.5	$4.7	$3.6	$0.0
1996	$6.3	$2.2	$5.0	$0.0
1997	$9.0	$0.0	$1.5	$0.0
1998	$9.6	$0.0	$3.0	$0.0
1999	$9.0	$0.0	$0.0	$0.0
2000	$11.6	$2.0	$0.0	$0.0
2001	$19.7	$3.3	$0.0	$0.0
2002	$15.1	$9.1	$5.5	$1.5
2003	$14.7	$8.7	$8.7	$1.5
2004	**$16.1**	**$10.1**	**$10.1**	**$1.5**
11 Yr Sum	$114.7	$44.5	$40.2	$4.5

6. Experience Account Summary

Establishment

The 1992 Regular Session established an Experience Account (EA) for LASERS and TRSL to provide for cost-of-living (COLA) benefits for retirees. Each year the EA is credited or debited with 50% of the net investment experience gain or loss together with interest on the beginning account balance. Before the EA was enacted, the full investment gain or loss was amortized to adjust future employer contribution amounts. This was required to maintain an actuarially sound funding method.

EA Operation

The EA balance is created by diverting trust assets from the funding process. Those assets are then returned when COLA benefits are approved. Although the EA balance may represent an amount of funds sufficient to cover the expected value of COLA benefits, it does not in itself provide the actual funding necessary to ultimately pay for COLA liabilities. Rather, funding for COLAs requires additional employer contributions.

Experience Account History
as of June 30, 2003
($millions)

Combined Systems

Fiscal Year	Allocate	Interest	Disburse	Balance	Impact on UAL
1992	$60.7	$0.0	$0.0	$60.7	$60.7
1993	$94.9	$6.4	$0.0	$161.9	$161.9
1994	$33.1	$14.8	$0.0	$209.8	$209.8
1995	($52.9)	$13.4	$129.4	$40.9	$170.3
1996	$345.3	$4.1	$58.4	$331.9	$519.7
1997	$273.3	$43.6	$0.0	$648.8	$836.6
1998	$577.8	$118.2	$309.4	$1,035.3	$1,532.6
1999	$372.8	$142.6	$126.8	$1,423.9	$2,048.0
2000	$608.2	$236.9	$170.2	$2,098.9	$2,893.1
2001	($685.6)	$2.7	$565.9	$850.1	$2,210.3
2002	($1,214.0)	($47.0)	$166.2	($577.2)	$1,526.4
2003	**($1,172.5)**	**$26.8**	**$0.3**	**($1,723.1)**	$1,526.7
TOTAL	**($758.9)**	**$562.5**	**$1,526.7**	**($1,723.1)**	**$1,526.7**

The combined balance in the Experience Account for LASERS and TRSL is ($1.723) billion, negative, as of June 30, 2003. Act 588 of the 2004 Regular Session eliminates any negative balances existing on June 30, 2004 to be amortized as with the unfunded accrued liability. Future balances cannot be negative.

Experience Account History
as of June 30, 2003
($millions)

LASERS

Fiscal Year	Allocate	Interest	Disburse	Balance	Impact on UAL
1992	$27.3	$0.0	$0.0	$27.3	$27.3
1993	($2.8)	$2.2	$0.0	$26.7	$26.7
1994	$8.5	$2.4	$0.0	$37.6	$37.6
1995	$20.6	$3.6	$0.0	$61.8	$61.8
1996	$73.8	$7.6	$58.4	$84.8	$143.2
1997	$116.2	$11.9	$0.0	$212.9	$271.4
1998	$104.6	$27.6	$90.0	$255.1	$403.5
1999	$119.6	$33.4	$42.9	$365.1	$556.5
2000	$150.0	$50.3	$57.9	$507.5	$756.9
2001	($236.3)	$1.9	$89.1	$184.0	$522.4
2002	($394.4)	($8.1)	$52.5	($270.9)	$390.9
2003	**($373.4)**	**$9.8**	**$0.0**	**($634.5)**	$390.9
TOTAL	**($386.3)**	**$142.6**	**$390.9**	**($634.5)**	**$390.9**

TRSL

Fiscal Year	Allocate	Interest	Disburse	Balance	Impact on UAL
1992	$33.4	$0.0	$0.0	$33.4	$33.4
1993	$97.6	$4.2	$0.0	$135.2	$135.2
1994	$24.5	$12.4	$0.0	$172.1	$172.1
1995	($73.4)	$9.8	$129.4	($20.9)	$108.5
1996	$271.5	($3.6)	$0.0	$247.0	$376.5
1997	$157.1	$31.7	$0.0	$435.8	$565.2
1998	$473.3	$90.5	$219.4	$780.3	$1,129.1
1999	$253.2	$109.2	$83.8	$1,058.8	$1,491.5
2000	$458.2	$186.6	$112.3	$1,591.4	$2,136.3
2001	($449.3)	$0.8	$476.9	$666.1	$1,687.9
2002	($819.6)	($38.9)	$113.7	($306.2)	$1,135.5
2003	**($799.1)**	**$17.0**	**$0.3**	**($1,088.6)**	$1,135.8
TOTAL	**($372.6)**	**$419.9**	**$1,135.8**	**($1,088.6)**	**$1,135.8**

7. Texaco Settlement

Texaco Settlement Fund

Under Act 4 of the 1994 R.S., the three state systems (LASERS, TRSL and STPOL) began receiving funds from the Texaco Settlement as state aid to accelerate the payoff of the unfunded accrued liability. These funds are held in a suspense account and are not used to offset the regular UAL amortization payments under Act 257 of the 1992 Regular Session. The settlement funds are credited with the respective actuarial rate of return earned by each system.

Once the accumulated value of the account balance equals the outstanding balance of the initial unfunded accrued liability, or UAL if smaller, for each system, the account will liquidate the appropriate liability.

Texaco Fund Summary
as of June 30, 2003
($millions)

Unfunded Systems Combined

Fiscal Year	Allocation	Interest	Balance
1993	$0.0	$0.0	$0.0
1994	$116.2	$0.0	$116.2
1995	$44.1	$8.1	$168.5
1996	$44.1	$26.0	$238.6
1997	$20.0	$31.7	$290.4
1998	$0.0	$52.7	$343.1
1999	$0.0	$46.2	$389.3
2000	$0.0	$61.7	$451.0
2001	$0.0	$2.5	$453.4
2002	$0.0	($21.7)	$431.7
2003	**($185.5)***	**($20.4)**	**$225.8**
TOTAL	**$39.1**	**$186.7**	**$225.8**

****LSU Unfunded Plan:*** A state appropriation required to amortize this supplemental portion of the Initial Unfunded Accrued Liability for TRSL and LASERS is not required after fiscal year 2003 since an amount was released from the Texaco Funds equal to its outstanding balance. Amounts are asterisked.

Texaco Fund Summary
as of June 30, 2003
($millions)

LASERS

Fiscal Year	Allocation	Interest	Balance
1993	$0.0	$0.0	$0.0
1994	$36.0	$0.0	$36.0
1995	$13.8	$3.4	$53.2
1996	$13.8	$6.6	$73.6
1997	$0.7	$10.4	$84.7
1998	$0.0	$11.0	$95.7
1999	$0.0	$12.5	$108.3
2000	$0.0	$14.9	$123.2
2001	$0.0	$0.5	$123.6
2002	$0.0	($5.4)	$118.2
2003	**($89.2)***	**($4.3)**	**$24.7**
TOTAL	($24.9)	$49.6	$24.7

TRSL

Fiscal Year	Allocation	Interest	Balance
1993	$0.0	$0.0	$0.0
1994	$77.2	$0.0	$77.2
1995	$29.2	$4.4	$110.8
1996	$29.2	$18.9	$158.9
1997	$0.0	$20.4	$179.3
1998	$0.0	$37.2	$216.5
1999	$0.0	$30.3	$246.8
2000	$0.0	$43.5	$290.3
2001	$0.0	$0.2	$290.5
2002	$0.0	($17.0)	$273.5
2003	**($96.3)***	**($15.2)**	**$162.0**
TOTAL	**$39.3**	**$122.8**	**$162.0**

STPOL

Fiscal Year	Allocation	Interest	Balance
1993	$0.0	$0.0	$0.0
1994	$3.1	$0.0	$3.1
1995	$1.2	$0.2	$4.5
1996	$1.2	$0.5	$6.1
1997	$19.4	$0.9	$26.4
1998	$0.0	$4.4	$30.8
1999	$0.0	$3.4	$34.3
2000	$0.0	$3.3	$37.5
2001	$0.0	$1.8	$39.4
2002	$0.0	$0.7	$40.1
2003	**$0.0**	**($1.0)**	**$39.1**
TOTAL	**$24.7**	**$14.3**	**$39.1**

8. Asset Balances

Assets

Retirement trusts build assets from contributions and their earnings. Long term projections are applied by the actuary based on current asset values and their investment attributes and expectations.

Market Value (fair value) of assets is required for financial reporting including asset/liability and income/expense statements.

For funding purposes, the value of plan assets is market related to comply with actuarial standards and Governmental Accounting Standards Board (GASB) requirements. **Actuarial Value of Assets** is applied for valuation purposes in all thirteen state and statewide systems to smooth market value by spreading investment gains and losses. The state plans use the term **Valuation Assets** since the actuarial value is reduced for special accounts (Experience Account, Texaco Funds, LSU AG, Employer Credit Account). These actuarial asset values are used to determine annual employer funding requirements, funding ratios, and COLA Target Funding tests.

Asset Values
as of June 30, 2003
($millions)

State Systems

System	Market Value (Fair Value) of Assets	Actuarial Value of Assets	Valuation Assets
LASERS	$5,718.7	$5,853.0	$6,462.9
TRSL	$10,520.7	$10,738.1	$11,664.9
STPOL	$267.2	$271.1	$232.0
LSERS	$1,344.2	$1,375.5	$1,369.6
State Total	**$17,850.8**	**$18,237.7**	**$19,729.3**
As Percent of Market Value	100.0%	102.2%	110.5%

Asset Values *
($millions)

Statewide Systems

System	Market Value (Fair Value) of Assets	Actuarial Value of Assets	Valuation Assets
ASSR	$112.2	$107.2	$107.2
CCRS	$203.3	$206.8	$206.8
DARS	$140.3	$145.7	$145.7
FRS	$664.6	$658.4	$658.4
MERSA	$445.0	$452.8	$452.8
MERSB	$83.8	$86.2	$86.2
MPERS	$1,106.4	$1,076.3	$1,076.3
PERSA	$1,415.5	$1,261.2	$1,261.2
PERSB	$99.6	$90.2	$90.2
RVRS	$43.5	$43.9	$43.9
SPRF	$894.1	$907.4	$907.4
Statewide Total	**$5,208.3**	**$5,036.1**	**$5,036.1**
As Percent of Market Value	100.0%	96.7%	96.7%

All Systems Combined

System	Market Value (Fair Value) of Assets	Actuarial Value of Assets	Valuation Assets
Total For All Systems:	**$23,059.2**	**$23,273.8**	**$24,765.4**
As Percent of Market Value:	100.0%	100.9%	107.4%

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

9. Investment Returns

Actual Annual Rates of Return *

State Systems

System	FY 2003 Market Value	FY 2003 Actuarial Value of Assets	FY 2002 Market Value	FY 2002 Actuarial Value of Assets	Expected Long Term Actuarial Rate
LASERS	**3.83%**	-3.63%	**-5.63%**	-4.40%	***8.25%***
TRSL	**2.16%**	-5.55%	**-8.08%**	-5.84%	***8.25%***
STPOL	**5.13%**	-2.45%	**-2.82%**	1.75%	***7.50%***
LSERS	**3.76%**	-0.83%	**-2.42%**	-1.78%	***7.50%***

Statewide Systems

System	FY 2003 Market Value	FY 2003 Actuarial Value of Assets	FY 2002 Market Value	FY 2002 Actuarial Value of Assets	Expected Long Term Actuarial Rate
ASSR	**15.3%**	-0.7%	**-4.9%**	-3.4%	***8.00%***
CCRS	**2.9%**	-0.9%	**-3.0%**	-0.3%	***8.00%***
DARS	**2.8%**	-5.7%	**-9.1%**	-1.1%	***8.00%***
FRS	**5.4%**	0.9%	**-3.7%**	-3.0%	***7.00%***
MERSA	**4.4%**	-1.0%	**-1.8%**	1.1%	***8.00%***
MERSB	**3.8%**	-1.8%	**-2.8%**	0.3%	***8.00%***
MPERS	**3.8%**	-6.8%	**-5.3%**	-4.1%	***7.00%***
PERSA	**15.6%**	3.4%	**-2.7%**	-1.2%	***8.00%***
PERSB	**15.9%**	5.9%	**0.0%**	0.5%	***8.00%***
RVRS	**3.3%**	1.0%	**-3.0%**	0.5%	***8.00%***
SPRF	**4.2%**	0.0%	**-3.0%**	0.3%	***8.00%***

***** Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

Indices

June 30 of :	FY 2003	FY 2002
Indices	**Annual Rate**	
CPI (1)	**2.1%**	**1.1%**
Lehman Brothers (2)	**10.4%**	**8.6%**
S&P 500 (3)	**0.3%**	**-18.0%**
65% Stock/ 35% Bond	**3.8%**	**-8.7%**
55% Stock/ 45% Bond	**4.8%**	**-6.0%**

Note: Indices are shown for the twelve-month period ending June 30. (1)CPI (All Items), (2)Lehman Brothers Aggregate Bond Index, (3)Standard & Poors' 500 Index. Composites weighted by (2) & (3).

10. UAL Balances

Valuation Balances

Valuation Unfunded Accrued Liability (UAL) values are dependent on the particular actuarial funding method selected for the system. UAL bases are amortized over a number of years specified in statutes. Certain funding methods do not have UAL bases and spread all costs over the participant's future working lifetime. The Valuation UAL balances of the state systems are not reduced by assets allocated to the Texaco Settlement Account, Experience Account, and Employer Credit Account, where applicable.

Valuation UAL Balance *
($millions)

	System	FY 2003	FY 2002	FY 2001	FY 2000
State Systems	**LASERS**	$3,333.5	$2,864.3	$2,357.9	$2,209.5
	TRSL	$5,531.9	$4,517.2	$3,618.7	3,518.0
	STPOL	$215.7	$155.1	$133.4	131.2
	LSERS	$361.2	$148.2	($43.8)	(264.4)
	State Total	**$9,442.3**	**$7,684.8**	**$6,066.3**	**$5,594.3**
Statewide Systems	**ASSR**	$35.2	$35.3	$34.8	$34.3
	CCRS	$79.2	$77.9	$77.5	$77.9
	DARS	$0.0	$0.0	$0.0	$0.0
	FRS	$286.3	$246.0	$171.6	$132.9
	MERSA	$68.9	$67.7	$66.3	$64.9
	MERSB	$6.4	$6.7	$6.9	$7.6
	MPERS	$379.5	$195.2	($14.1)	$(110.3)
	PERSA	$97.4	$98.9	$102.3	$110.3
	PERSB	$0.0	$0.0	$0.0	$0.0
	RVRS	$0.0	$0.0	$0.0	$0.0
	SPRF	$92.3	$91.1	$89.7	$88.2
	Statewide Total	**$1,045.3**	**$818.7**	**$535.0**	**$405.8**
All Systems	***Combined Total***	**$10,487.6**	**$8,503.5**	**$6,601.3**	**$6,000.1**

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

Financial Balances

The financial Net UAL balance is equal to the Valuation UAL balance adjusted for Texaco Settlement funds and Employer Credit Accounts. The balances shown below for the three unfunded systems include amounts held in suspense accounts set up to hold the monies received from the Texaco Settlement. LSERS includes the Employer Credit Account balance.

Net UAL Balance
as of June 30, 2003
($millions)

State Systems

System	FY 2003	FY 2002	FY 2001	FY 2000
LASERS	$3,308.8	$2,746.1	$2,234.3	$2,086.3
TRSL	$5,369.9	$4,243.7	$3,328.3	$3,227.7
STPOL	$176.6	$115.0	$94.1	$93.7
LSERS	$355.3	$111.8	($99.4)	($323.1)
State Total	**$9,210.6**	**$7,216.7**	**$5,557.2**	**$5,084.7**

11. Participant Census and Payroll

Membership

Membership data is provided in the following table. Participants are categorized in one of three categories: active member, retired, or as a current member of the Deferred Retirement Option Plan (DROP).

Participant Census *
(Payroll in $millions)

State Systems

System	Actives	Retirees	DROP current	Total	% of All Systems	FY 2003 Payroll
LASERS	65,441	34,074	2,768	102,283	*29.6%*	$1,924.7
TRSL	87,646	56,623	2,722	146,991	*42.5%*	$2,977.9
STPOL	948	1,096	45	2,089	*0.6%*	$44.1
LSERS	14,486	10,129	792	25,407	*7.4%*	$268.7
Subtotal	168,521	101,922	6,327	276,770	*80.1%*	$5,215.4

Statewide Systems

System	Actives	Retirees	DROP current	Total	% of All Systems	FY 2003 Payroll
ASSR	631	432	65	1,128	0.3%	$27.0
CCRS	2,239	790	94	3,123	0.9%	$67.5
DARS	676	200	5	881	0.3%	$35.2
FRS	3,360	1,351	120	4,831	1.4%	$121.0
MERSA	5,331	2,564	202	8,097	2.3%	$135.9
MERSB	2,007	783	57	2,847	0.8%	$45.3
MPERS	5,957	3,544	247	9,748	2.8%	$197.3
PERSA	13,607	4,922	327	18,856	5.5%	$396.3
PERSB	2,154	481	35	2,670	0.8%	$54.8
RVRS	212	124	16	352	0.1%	$7.4
SPRF	13,526	2,605	69	16,200	4.7%	$383.4
Subtotal	49,700	17,796	1,237	68,733	19.9%	$1,471.0

All Systems Combined

All Systems	Actives	Retirees	DROP current	Total	% of All Systems	FY 2003 Payroll
Total	218,221	119,718	7,564	345,503	100.0%	$6,686.4

***** Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

12. Funding Measure Under GASB

Funding Progress

Under Governmental Accounting Standards Board (GASB), public retirement systems show the development of funding progress with the ratio of net unfunded accrued liabilities (UAL reduced by Texaco and ECA) to valuation payroll. Such ratios over time indicate whether or not the system is becoming financially stronger. Usually, the smaller the ratio trends, the stronger the system is financially. This is because the impact of funding liabilities allocated to past service is reducing relative to the growth in membership payroll.

No values are developed for those statewide systems that utilize the Aggregate Funding Method since an unfunded actuarial accrued liability is not inherent.

Net UAL as a Percent of Valuation Payroll *

	System	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
State Systems	**LASERS**	171.9%	147.5%	125.3%	114.6%	115.6%
	TRSL	180.3%	152.8%	128.9%	125.9%	148.7%
	STPOL	400.1%	362.8%	292.5%	278.8%	349.3%
	LSERS	132.2%	43.2%	-39.8%	-134.0%	-130.3%
Statewide Systems	**ASSR**	130.4%	133.9%	133.4%	133.8%	141.7%
	CCRS	117.3%	121.5%	126.9%	133.5%	141.4%
	DARS	n/a	n/a	n/a	n/a	n/a
	FRS	236.6%	215.0%	159.4%	132.3%	81.0%
	MERSA	50.7%	52.0%	52.9%	52.1%	52.6%
	MERSB	14.2%	15.3%	16.3%	18.2%	18.7%
	MPERS	192.4%	104.1%	-7.7%	-67.4%	-76.9%
	PERSA	24.6%	26.5%	32.7%	32.7%	36.4%
	PERSB	n/a	n/a	n/a	n/a	n/a
	RVRS	n/a	n/a	n/a	n/a	n/a
	SPRF	24.1%	25.3%	26.6%	28.3%	29.5%

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

13. Funded Ratios

Funded Ratios

Measuring assets against liabilities can vary depending upon purpose. To determine the system's funding progress, all actuarial assets available for plan benefits (without adjustments for the Texaco Settlement Account, Experience Account, Employer Credit Account, or LSU Ag) are measured against the actuarial liability of projected accrued benefits (PBO).

The PBO is a consistent measure of accrued benefits which is independent of the selected actuarial cost method. The resulting values follow the actuarial accrued liability calculated under the projected unit credit cost method prorated on service. The ratio of actuarial value of assets to PBO derives the funded ratio.

Funding Progress
as of June 30, 2003
($millions)

State Systems

System	Actuarial Value of Assets	PBO	Funded Ratio
LASERS	$5,853.0	$9,796.3	**59.7%**
TRSL	$10,738.1	$17,196.8	**62.4%**
STPOL	$271.1	$456.1	**59.4%**
LSERS	$1,375.5	$1,782.4	**77.2%**
State Total	**$18,237.7**	**$29,231.6**	**62.4%**

Funding Progress *
($millions)

Statewide Systems

System	Actuarial Value of Assets	PBO	Funded Ratio
ASSR	$107.2	$180.0	**59.5%**
CCRS	$206.8	$304.8	**67.8%**
DARS	$145.7	$140.5	**103.7%**
FRS	$658.4	$910.0	**72.3%**
MERSA	$452.8	$574.9	**78.8%**
MERSB	$86.2	$106.0	**81.3%**
MPERS	$1,076.3	$1,390.5	**77.4%**
PERSA	$1,261.2	$1,434.2	**87.9%**
PERSB	$90.2	$84.9	**106.3%**
RVRS	$43.9	$48.0	**91.5%**
SPRF	$907.4	$1,107.4	**81.9%**
Statewide Total	$5,036.1	$6,281.2	**80.2%**

Funding Progress *
($millions)

All Systems Combined

System	Actuarial Value of Assets	PBO	Funded Ratio
Combined Total	$23,273.8	$35,512.8	**65.5%**

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

Funding Eligibility for COLAs

Under current statues, if the "Actual Funded Ratio" is less than the "Target Ratio", the retirement system may not consider granting COLA benefits. For an Actual Funded Ratio the state systems and Municipal Police compare Valuation Assets to the accrued liability under the funding method. Valuation Assets do not include the Texaco Settlement Account, Experience Account, or Employer Credit Account balances. All other statewide systems compare Actuarial Value of Assets to the actuarial liability of projected accrued benefits (PBO). The ratio is then compared to the formula Target Ratio.

Funding Eligibility for COLAs
as of June 30, 2003

State Systems

System	Target Ratio	Actual Funded Ratio
LASERS	*	66.0%
TRSL	*	67.8%
STPOL	57.1%	51.8%
LSERS	100.0%	79.1%

* Act 402 of the 1999 Regular Session omitted the Target Ratio Test for this system.

Funding Eligibility for COLAs *

Statewide Systems

System	Target Ratio	Actual Funded Ratio
ASSR	75.3%	59.5%
CCRS	66.2%	67.8%
DARS	90.1%	103.7%
FRS	75.6%	72.3%
MERSA	79.2%	78.8%
MERSB	76.3%	81.3%
MPERS	100.0%	73.9%
PERSA	73.3%	87.9%
PERSB	97.1%	106.3%
RVRS	94.4%	91.5%
SPRF	77.7%	81.9%

* Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

14. Funding of TRSL Optional Retirement Plan

In 1990, an optional retirement plan (ORP) was established for academic and unclassified employees of public institutions of higher education. This is a defined contribution plan that is administered by TRSL. The ORP participants are not members of TRSL and their benefits are not guaranteed by the state. Each employer contributes to TRSL the same amount that would have been contributed for a TRSL member. The employer normal cost portion is credited to the participants account (ORP normal cost) while the remainder is retained by TRSL as a payment on the UAL. For fiscal year 2003 the total ORP normal cost payment credited towards participants' accounts was $66.8 million while the ORP employer payment retained by TRSL to fund the UAL was $29.5 million. ORP is directly funded by the state from general fund appropriations only on the portion of salary not paid by fees or other self-generated funds received by the institutions of higher learning. As of December 31, 2003, there were 8,906 participants in ORP. Based on TRSL information, ORP members represent 54% of the higher education TRSL plus ORP membership.

GROWTH OF ORP MEMBERSHIP
(As Compared to TRSL)

Year	ORP	TRSL	Ratio (ORP to TRSL)
1992	3,775	86,244	4.4%
1993	4,196	85,143	4.9%
1994	4,780	86,079	5.6%
1995	5,290	84,671	6.2%
1996	5,712	84,849	6.7%
1997	6,195	85,169	7.3%
1998	6,690	85,772	7.8%
1999	7,181	85,419	8.4%
2000	7,581	85,462	8.9%
2001	8,126	84,694	9.6%
2002	9,016	84,866	10.6%
2003	**8,906**	**84,958**	**10.5%**

BENEFIT FORMULAS,

RETIREMENT ELIGIBILITY,

AND

CONTRIBUTION RATES

1. Benefit Accruals and Member Contribution Rates

Formula

The retirement benefit for all thirteen systems is generally based on the following formula:

Annual Benefit at Retirement	=	Benefit Accrual Rate	x	Years of Service at Retirement	x	Final Average Salary

The benefit is not in excess of final average compensation.

Benefit Accrual Rates, Retirement Eligibility & Member Contribution Rates (% of Pay)
(as of July 1, 2003)

LASERS

	Benefit Accrual	Retirement Eligibility: Service	Retirement Eligibility: Age	Member Contribution
Regular	2.50%	10	60	7.50%
	2.50%	25	55	7.50%
	2.50%	30	any age	7.50%
Legislators	3.50%	12	55	11.50%
	3.50%	16	any age	11.50%
	3.50%	20	50	11.50%
Wildlife Agents [eff. 7/1/2003]				
Employed Before 7/1/2003	3.0%	Service Before 7/01/2003		
	3⅓%	Service On or After 7/01/2003		
	See Above	10	55	9.50%
		20	any age	9.50%
Employed On/After 7/1/2003	3⅓%	10	60	9.50%
	3⅓%	25	any age	9.50%
Corrections Officers & DPS				
Employed Before 8/15/1986	2.50%	20	any age	9.00%
Employed 8/15/1986 –12/31/2001	2.50%	20	50	9.00%
All Members	2.50% *	25	any age	9.00%
AG Opinion / LASERS Policy	2.50% *	10	60	9.00%
* **Public Safety Service secondary plan - 3⅓% for service after 12/31/2001.**				
Judges & Court Officers [eff. 7/1& 8/15/2003]	3.50%	10	65	11.50%
	3.50%	12	55	11.50%
	3.50%	18	any age	11.50%
*At least 12 as judge/court officer	3.50%	20*	50	11.50%
	3.50%	any	70	11.50%
LASERS: Early retirement – 20 years of service with actuarially reduced benefits				

Benefit Accrual Rates, Retirement Eligibility & Member Contribution Rates (% of Pay)

(as of July 1, 2003)

TRSL

	Benefit Accrual	Retirement Eligibility: Service	Retirement Eligibility: Age	Member Contribution
Regular Teachers				
Employed Before 7/1/1999	2.00%	5	60	8.00%
	2.00%	20	any age	8.00%
	2.50%	20	65	8.00%
Employed On/After 7/1/1999	2.50%	5	60	8.00%
	2.50%*	20*	any age*	8.00%
All Teachers	2.50%	25	55	8.00%
	2.50%	30	any age	8.00%
Lunch Plan A	3.00%	5	60	9.10%
	3.00%	25	55	9.10%
	3.00%	30	any age	9.10%
Lunch Plan B (In Social Security)	2.00%	5	60	5.00%
	2.00%	30	55	5.00%

* Teacher's early retirement - actuarially reduced.

STPOL

	Benefit Accrual	Retirement Eligibility: Service	Retirement Eligibility: Age	Member Contribution
All Employees	3⅓%	10	50	8.00%
Employed Before 9/8/1978	3⅓%	20	any age	8.00%
Employed On/After 9/8/1978	3⅓%	25	any age	8.00%

LSERS

	Benefit Accrual	Retirement Eligibility: Service	Retirement Eligibility: Age	Member Contribution
All Employees	3⅓%	10	60	7.5%
(Retirement On or After July 1, 2001)	3⅓%	25	55	7.5%
	3⅓%	30	any age	7.5%

Early retirement – 20 years of service with actuarially reduced benefits

Benefit Accrual Rates, Retirement Eligibility & Member Contribution Rates (% of Pay)
(as of July 1, 2003)

ASSRS

	Benefit Accrual	Eligibility Service	Eligibility Age	Member Contribution
All Employees	3⅓%	12	55	8.00%
	3⅓%	30	any age	8.00%

CCRS

	Benefit Accrual	Eligibility Service	Eligibility Age	Member Contribution
Service Before 7/1/1999	3.00%	12	55	8.25%
Service On/After 7/1/1999	3⅓%	12	55	8.25%

-

DARS

	Benefit Accrual	Eligibility Service	Eligibility Age	Member Contribution
All Employees	3.50%	10	60	7.00%
	3.50%	24	55	7.00%
	3.50%	30	any age	7.00%
Members employed prior to 7/1/1990 may elect prior provisions (3% formula).				
Early retirement – eligibility and 3% reductions based on age and service.				

FRS

	Benefit Accrual	Eligibility Service	Eligibility Age	Member Contribution
All Employees	3⅓%	12	55	8.00%
	3⅓%	20	50	8.00%
	3⅓%	25	any age	8.00%

MERS

	Benefit Accrual	Eligibility Service	Eligibility Age	Member Contribution
Plan A *	3.00%	10	60	9.25%
	3.00%	25	any age	9.25%
Plan B	2.00%	10	60	5.00%
(In Social Security)	2.00%	30	any age	5.00%
Elected officials receive additional 0.5% accrual for each year elected service				
* Plan A members: (a) Pre 10/1978 supplemented plan member only = 1% plus $2 for each month of service prior to 10/1978. (b) Early retirement – 20 years of service with actuarially reduced benefits.				

Benefit Accrual Rates, Retirement Eligibility & Member Contribution Rates (% of Pay)

(as of July 1, 2003)

MPERS

	Benefit Accrual	Eligibility		Member Contribution
		Service	Age	
All Employees	3⅓%	12	55	7.50%
	3⅓%	20	50	7.50%
	3⅓%	25	any age	7.50%
Early retirement – 20 years of service with actuarially reduced benefits				

PERS

	Benefit Accrual	Eligibility		Member Contribution
		Service	Age	
Plan A *	3.00%	7	65	9.50%
	3.00%	10	60	9.50%
	3.00%	25	55	9.50%
	3.00%	30	any age	9.50%
Plan B (In Social Security)	2.00%	7	65	3.00%
	2.00%	10	60	3.00%
	2.00%	30	55	3.00%
* For members of the supplemental plan only the accrual rate is 1% plus $2 for each month of service prior to the revision date.				

RVRS

	Benefit Accrual	Eligibility		Member Contribution
		Service	Age	
All Employees	3⅓%	10	60	7.00%
	3⅓%	20	55	7.00%
	3⅓%	30	any age	7.00%

SPRF

	Benefit Accrual	Eligibility		Member Contribution
		Service	Age	
All Employees	3⅓%	12	55	9.80%
	3⅓%	30	any age	9.80%
Early retirement – 20 years of service and age 50 with actuarially reduced benefits				

2. Benefit Levels and Member Cost

Standard of Living

The following table illustrates two aspects of the retirement benefit. The first portion of the table shows the retirement benefit expected for a new member as a percentage of their final pre-retirement compensation. The retirement benefit is calculated using the three highest consecutive earning years that the member has over his entire salary history. Showing the benefit as a percentage of salary gives the employer an indication of the plan's desired benefit adequacy level. It also shows the income replacement ratio which the benefits are expected to provide to the member upon retirement, as they replace pre-retirement salary.

Employee Funding

The second part shows what portion of the retirement benefit cost is funded by employee contributions. A new member's future expected contributions are accumulated with interest at the valuation interest rate over the designated time period. The accumulated value is then divided by the actuarial present value of their expected benefit at retirement. This is the percent of the benefit cost that will be funded by the member's own required contributions.

Hazardous Duty

The membership was divided into two distinctive groups based on the nature of work performed. Benefit plans for employees engaged in hazardous duty have traditionally provided benefits at higher levels than those plans for employees engaged in more normal types of employment.

Hazardous duty personnel are typically members employed in law enforcement and public safety. The group shown on the following page is composed of state police, firefighters, sheriffs and deputies, municipal police, wildlife enforcement agents, and prison guards.

Benefit/Cost Illustrations

Retirement benefit provisions, employee contribution rates, and actuarial assumptions applied in this section are those in effect for FY 2003, through R.S.2004.

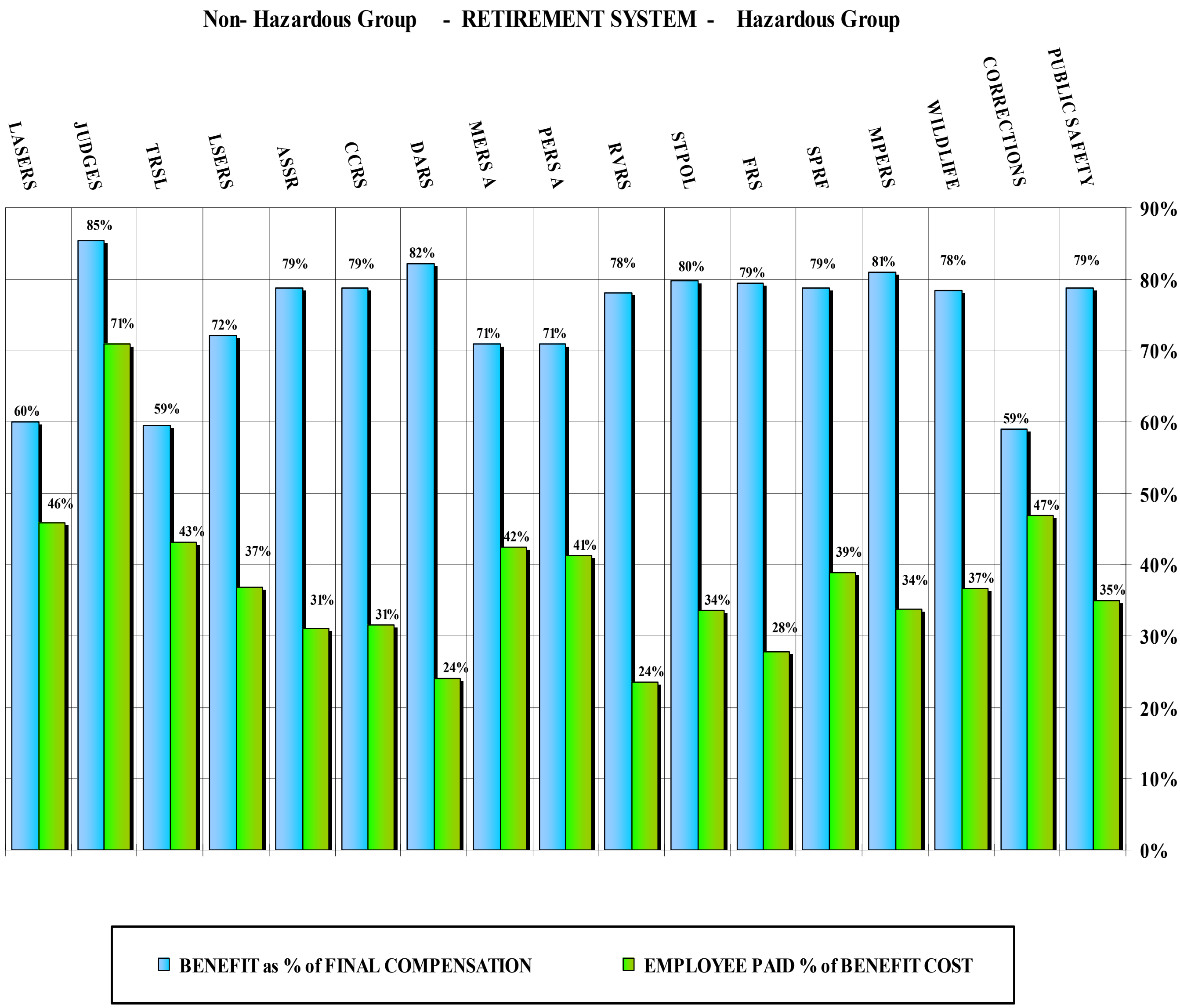
Non-Hazardous Group - New Member

	Division	Age	Replacement Ratio			Percent Self-Funded		
			Years of Service at Retirement					
			20	30	40	20	30	40
LASERS	Regular	65	48%	72%	95%	48%	61%	71%
	Legislators	65	68%	98%	98%	73%	100%	100%
	Judges	65	68%	98%	98%	72%	100%	100%
TRSL	Teachers	65	47%	72%	97%	46%	56%	76%
	Lunch A	65	57%	87%	97%	47%	61%	94%
	Lunch B	65	38%	59%	78%	41%	57%	83%
LSERS	Regular	65	64%	87%	96%	36%	48%	62%
ASSR	Regular	65	63%	94%	94%	34%	38%	46%
CCRS	Regular	65	63%	94%	94%	35%	38%	46%
DARS	Regular	65	66%	94%	94%	28%	29%	33%
MERS	Plan A	65	57%	85%	94%	49%	54%	63%
	Plan B	65	38%	57%	76%	40%	44%	49%
PERS	Plan A	65	57%	85%	94%	46%	51%	60%
	Plan B	65	38%	57%	76%	22%	24%	27%
RVRS	Regular	65	62%	94%	94%	26%	28%	30%

Hazardous Group - New Member

	Division	Age	Replacement Ratio		Percent Self-Funded	
			Years of Service at Retirement			
			20	25	20	25
LASERS	Wildlife	55	63%	78%	35%	37%
	Corrections	55	47%	59%	44%	47%
	Public Safety	55	63%	79%	33%	35%
STPOL	Regular	55	64%	80%	31%	34%
FRS	Regular	55	64%	79%	26%	28%
MPERS	Regular	55	65%	81%	31%	34%
SPRF	Regular	55	63%	79%	37%	39%

STATE & STATEWIDE RETIREMENT SYSTEMS
RETIREMENT BENEFIT TO EARNINGS REPLACEMENT RATIOS
and EMPLOYEE PAID PORTION of BENEFIT COST
(As Of Fiscal Year End 2003 Including R.S. 2004 Legislation)
ASSUMED RETIREMENT AGE 55 & 25 YEARS OF SERVICE



3. Projected Contribution Rates

Public Sources (Employer)

As discussed in the *Employer Funding for Pension Benefits* section of this report, the State of Louisiana is primarily responsible for funding the four state retirement systems through general fund appropriations, agency self-generated funds, IPTF (Insurance Premium Tax Fund) allocations, or as transfer payments to local school districts. Funding sources for the nine statewide retirement systems include local appropriations, ad valorem taxes, general revenue sharing funds, IPTF allocations, and, recently, special general fund appropriations. Other incidental funding sources are available to the various participating employers that may vary at any given time. The larger systems, LASERS and TRSL, combine participating member plans to apply a single aggregated projected employer rate.

Member Rates

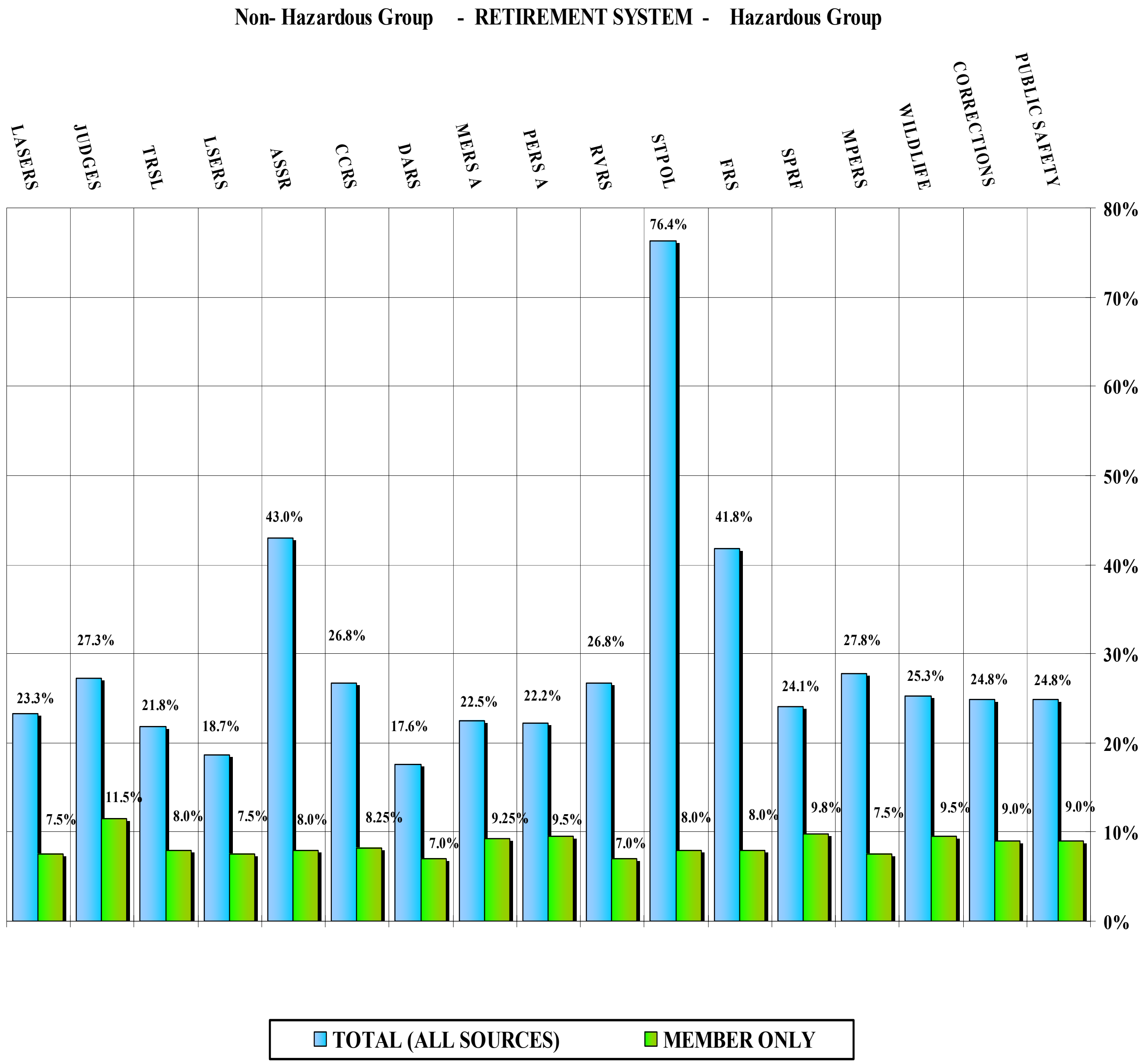
Employee contribution rates are fixed by statute and are detailed in the first part of this section. Required member contributions vary by plan and, with some exceptions, range from 7% to 9.8% of employee pay. Plans for Judges/Court Officers and for Legislators require 11.5%.

Total Projected Rates

The combination of public sources for employer funding and the member contributions, are required to fund the system's total future expected retirement plan obligations. Total projected rates reflect the combined funding requirement for the plan's fiscal year as a percentage of member payroll. For Fiscal Year 2004 total plan rates varied from 17.6% up to 76.4% of member payroll. Last year it was 14.5% up to 73%.

The following illustration graphs total projected (all sources) contribution rates and the member only contribution rates for those plans not participating in the Social Security System. These are based on actuarial valuation results as approved by PRSAC (Public Retirement Systems' Actuarial Committee) or the system to be paid for Fiscal Year 2004.

STATE & STATEWIDE RETIREMENT SYSTEMS
PROJECTED CONTRIBUTION RATES
FISCAL YEAR 2004
(As a Percent of Payroll)



ACTUARIAL CONCERNS

FUNDING ISSUES

1. Funding of UAL for State Systems – Act 588

Concern	***Paying off the current $9.4 billion retirement debt (Valuation UAL) for LASERS, TRSL, LSERS, and STPOL requires increasing payments in future years.***
Amortization Payments	Under rules adopted in 1992, amortization schedules for TRSL and LASERS provide for lower initial payments with higher payments to be made in later years. Under these schedules, the payments increase at 4.5% per year. **They are not sufficient to cover the interest charges on the UAL until fiscal year 2013.** As the required payments increase they will eventually become large enough to cover the interest charge, and also a principal portion toward the UAL. The law requires full amortization of the IUAL portion by the year 2029 (initial unfunded accrued liability bases established in FY 1989).
Act 588	**Act 588 of the 2004 Regular Session amended these amortization rules for bases established subsequent to the IUAL for LASERS, TRSL, and LSERS.** This part of the legislation provides immediate relief from the significant increases in contribution rates since the economic slowdown. It is accomplished by extending the amortization for periods with heavy actuarial losses and accelerating the recognition of gains in other periods. The outstanding balance of *prior* bases will be re-amortized as of June 30, 2004, as described in the graphic comparisons that follow the payment run-out exhibits below. *Future* bases, newly established on or after June 30, 2004, will be amortized over a thirty year period with level payments.
Payment Run-out	The following exhibits show a relevant path of the expected payment run-out of June 30, 2003 liabilities, comparing the new Act 588 payments to current schedules. STPOL was not impacted by Act 588.

FUTURE AMORTIZATION
MID-YEAR PAYMENT RUNOUT
of June 30, 2003 UAL BALANCES ($millions)
(Including the IUAL at 4.5% Increase Factor)

LASERS

Fiscal Year	Years Out	Future Amortization Payments		
		Act 588	Current	Impact
2004	1	$211.4	$211.4	$0.0
2010	7	$286.6	$306.9	($20.3)
2016	13	$390.3	$399.7	($9.4)
2022	19	$525.3	$520.5	$4.8
2029	26	$735.1	$708.3	$26.8
2030	27	$297.8	$3.7	$294.0
2034	31	$125.6	$0.0	$125.6
2035	32	$0.0	$0.0	$0.0
Total Projection Period		*$12,325.1*	*$11,224.3*	*$1,100.8*

TRSL

Fiscal Year	Years Out	Future Amortization Payments		
		Act 588	Current	Impact
2004	1	$307.1	$307.1	$0.0
2010	7	$460.5	$522.3	($61.8)
2016	13	$673.0	$680.1	($7.2)
2022	19	$949.6	$885.7	$63.9
2029	26	$1,379.8	$1,205.4	$174.4
2030	27	$509.7	($45.7)	$555.4
2034	31	$215.4	$0.0	$215.4
2035	32	$0.0	$0.0	$0.0
Total Projection Period		$21,553.7	$18,755.6	$2,798.1

Act 588 provides immediate payment relief from current amortization schedules:

For LASERS, a -$27.4 million reduction in FY 2005 diminishing to -$0.4 million by FY 2020.

For TRSL, a reduction of -$97.4 million in FY 2005 (-$61.8 million after projected 15.5% minimum rate under Act 588) diminishing to -$7.2 million by FY 2016.

Thereafter, the cost of deferring amortization begins to emerge as the required payments under Act 588 overtake existing schedules, increasing gradually until FY 2029. Beginning in FY 2030, the extended payments increase significantly and continue for the next four years. **The interest cost of this relief is not substantial in the first several years but gradually increases to significant amounts. Ultimately, as shown above, the impact of Act 588 on existing liabilities will result in additional payments of $1.1 billion for LASERS and $2.8 billion for TRSL.**

FUTURE AMORTIZATION
MID-YEAR PAYMENT RUNOUT
of June 30, 2003 UAL BALANCES ($millions)

LSERS

Fiscal Year	Years Out	Future Amortization Payments		
		Act 588	Current	Impact
2004	1	$19.6	$19.6	$0.0
2010	7	$18.4	$25.5	($7.1)
2016	13	$31.4	$33.2	($1.8)
2022	19	$48.4	$43.3	$5.1
2029	26	$74.8	$58.9	$15.9
2030	27	$104.0	$14.7	$89.3
2034	31	$0.0	$0.0	$0.0
2035	32	$0.0	$0.0	$0.0
Total Projection Period		*$1,283.6*	*$1,013.4*	*$270.2*

The funding surplus at LSERS was erased during fiscal year 2002. This system had been fully funded since 1989, with no initial unfunded accrued liability. Benefit increases, COLAs, and actuarial investment losses have created an unfunded liability. These and subsequent changes in liability are amortized similar to those for the other state systems. Payment relief was also given to LSERS under Act 588 as shown above. Reductions through FY 2016 will ultimately require an additional $270.2 million of payments.

FUTURE AMORTIZATION
MID-YEAR PAYMENT RUNOUT
of June 30, 2003 UAL BALANCES ($millions)
(Including the IUAL with Level Payments)

STPOL

Fiscal Year	Years Out	Future Amortization Payments
2004	1	$21.7
2010	7	$9.9
2016	13	$12.9
2022	19	$16.8
2029	26	$22.8
2030	27	$2.1
2034	31	$0.0

Payments for State Police are expected to drop substantially after the initial unfunded accrued liability is paid off by fiscal year 2009. This initial liability is being amortized with level payments. Subsequent changes in liabilities due to actuarial gains and losses, benefit changes, and COLAs are amortized to 2029 with payments increasing by 4.5% per year.

FUTURE AMORTIZATION
MID-YEAR PAYMENT RUNOUT
of June 30, 2003 UAL BALANCES ($millions)

COMBINED UAL

Sate Systems

Fiscal Year	Years Out	Future Amortization Payments		
		Act 588	Current	Impact
2004	1	$559.8	$559.8	$0.0
2010	7	$775.4	$864.6	($89.2)
2016	13	$1,107.6	$1,125.9	($18.4)
2022	19	$1,540.1	$1,466.3	$73.8
2029	26	$2,212.5	$1,995.4	$217.2
2030	27	$913.5	($25.2)	$938.7
2034	31	$341.0	$0.0	$341.0
2035	32	$0.0	$0.0	$0.0
Total Projection Period		*$35,629.4*	*$31,460.2*	*$4,169.2*

Paying off the current \$9.4 billion retirement debt (Valuation UAL) collectively for LASERS, TRSL, LSERS, and STPOL requires increasing payments that are expected to grow from \$560 million up to \$2.2 billion through fiscal year 2029, then diminishing until paid off in fiscal year 2034.

Texaco Funds

A strength to our funded status are the Texaco Funds, established and protected by the constitution to be held in the trust for ultimate elimination of IUAL balances. If these funds are diverted to other purposes it would further damage our future funded status.

As mentioned earlier in this report, the supplemental portion of the IUAL representing the LSU unfunded obligation was offset by the Texaco Funds on June 30, 2003. This released \$185.5 million of unfunded liability (\$89.2 million for LASERS, \$96.3 million for TRSL) and saves the state \$11.1 million dollars for FY 2004. The savings increases by 4.5% a year and continues until fiscal year 2029.

UAL Run-out

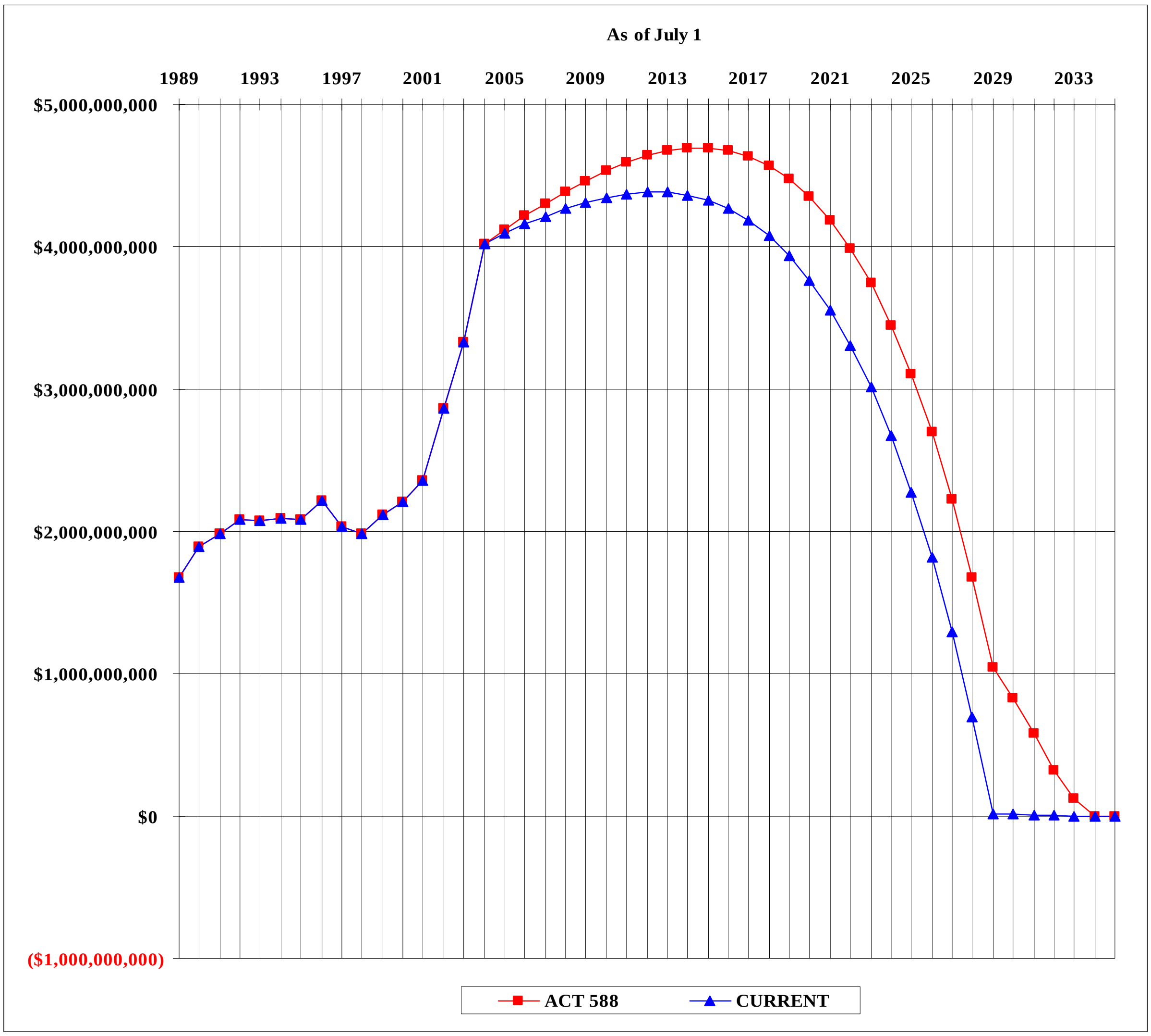
The funding progress of our state retirement systems is demonstrated by the following graphs of the run-out for June 30, 2003 liabilities (including the liability of Experience Account balances).

The impact of Act 588 legislation is shown relative to existing payment schedules in these illustrations, including brief summary comparisons of the amortization rules. For each of the three impacted systems there are two comparisons, the first titled “Unfunded Accrued Liability (UAL) Balance Comparison” followed by “UAL Amortization Mid-Year Payment Comparison”.

The first graph compares the funding progress of the Valuation UAL (UAL for funding purposes) which nets the IUAL (Initial Unfunded Accrued Liability) balance against all other amortization bases since 1988. The blue curves show the UAL balances and payments based on existing schedules while the red curve does so under Act 588 provisions. The UAL run-out values after 2003 are based on liabilities amortized for funding in the rates adopted by PRSAC as of the June 30, 2003 valuation date.

Since STPOL was not impacted by Act 588, the graphs show a comparison of future UAL balances and required payments with and with-out the Texaco Funds. The black curve illustrates the amortization of the Initial Unfunded Accrued Liability (IUAL) established by statute in 1988. The red curve is the Valuation UAL for funding, which nets all other amortization bases since 1988, including actuarial gain and losses, against the IUAL balance. The green curve is the Net IUAL that has been adjusted by the value of Texaco Funds. The UAL run-out values after 2003 are based on current amortization schedules. The blue curve shows the accumulating balance of the Texaco Account.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM
UNFUNDED ACCRUED LIABILITY (UAL) BALANCE COMPARISON
CURRENT AMORTIZATION versus ACT 588 LEGISLATION
Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes prior to 6/30/1999: Level Dollar amortization until 2029

Changes 6/30/1999 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

Experience Account: 30-year amortization (Payments increasing 4.5% per year)

Changes beginning 6/30/2004: Level Dollar amortization for 30 years

CURRENT (June 30, 2003) :

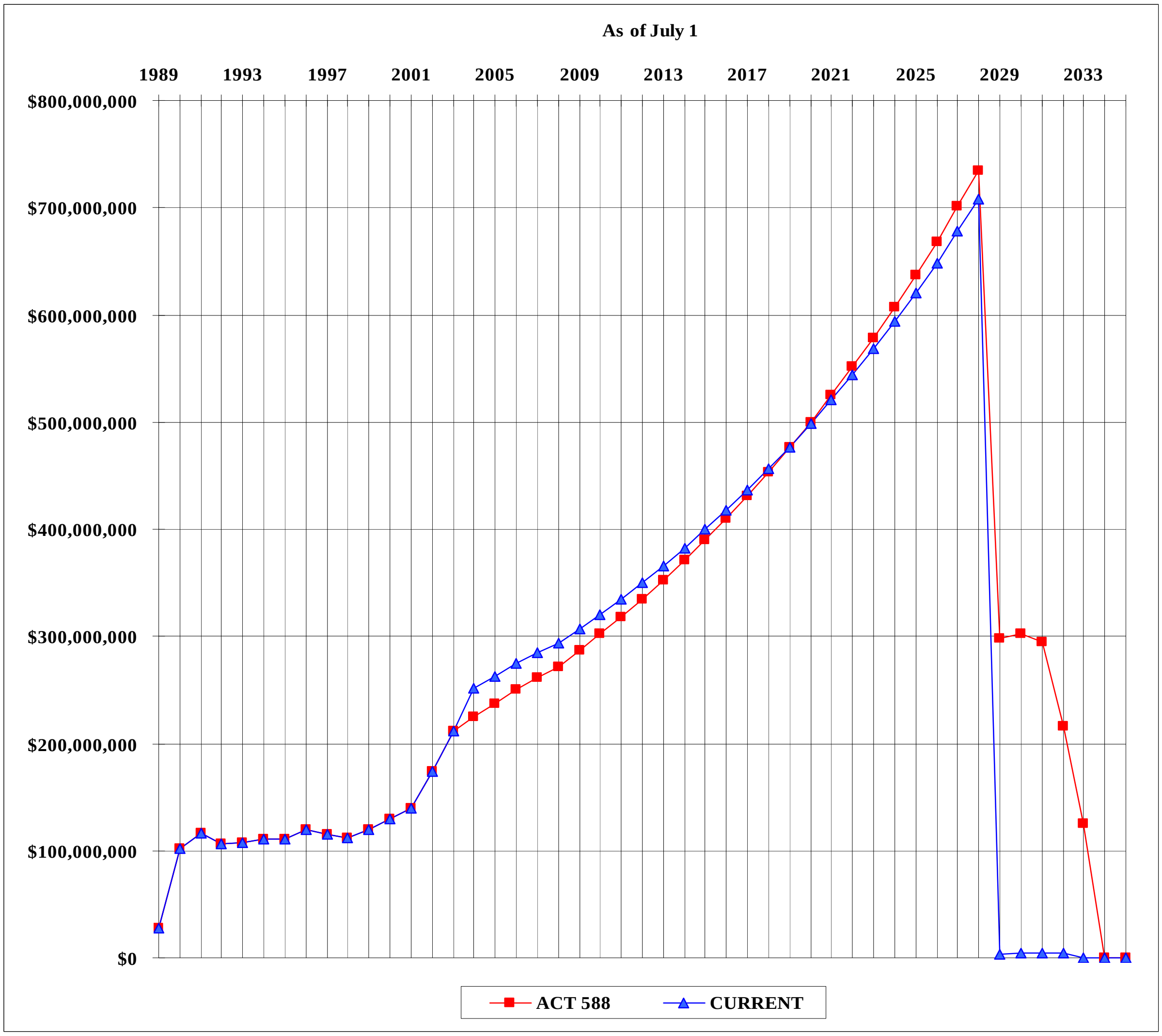
Change in liability (includes Experience Account): Payments increase at 4.5% per year to 2029

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

UAL AMORTIZATION MID-YEAR PAYMENT COMPARISON

CURRENT AMORTIZATION versus ACT 588 LEGISLATION

Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes prior to 6/30/1999: Level Dollar amortization until 2029

Changes 6/30/1999 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

Experience Account: 30-year amortization (Payments increasing 4.5% per year)

Changes beginning 6/30/2004: Level Dollar amortization for 30 years

CURRENT (June 30, 2003) :

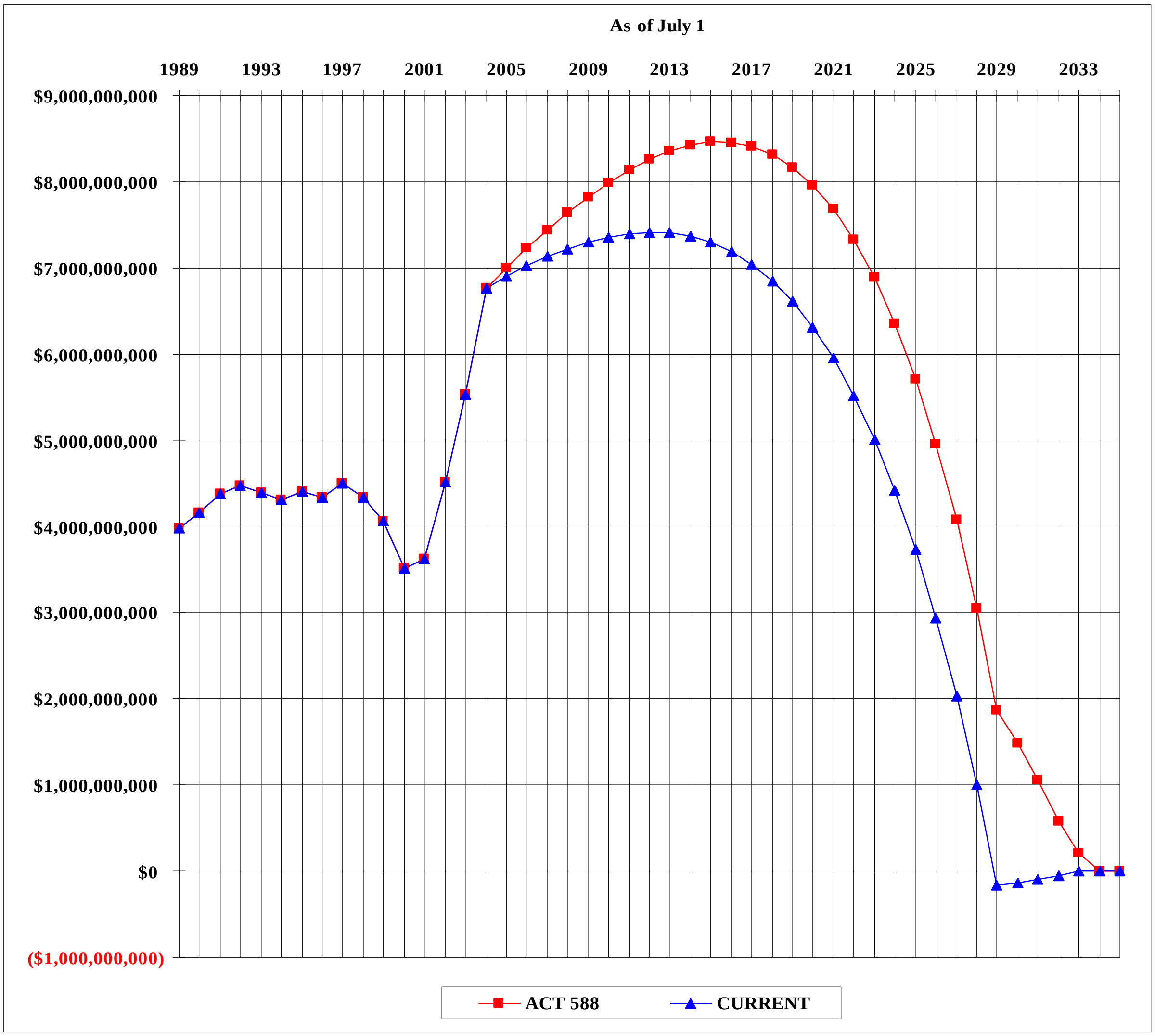
Change in liability (includes Experience Account): Payments increase at 4.5% per year to 2029

TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

UNFUNDED ACCRUED LIABILITY (UAL) BALANCE COMPARISON

CURRENT AMORTIZATION versus ACT 588 LEGISLATION

Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes in liability prior to 6/30/2001: Level Dollar amortization until 2029

Changes 6/30/2001 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

Experience Account: 30-year amortization (Payments increasing 4.5% per year)

Changes beginning 6/30/2004: Level Dollar amortization for 30 years

CURRENT (June 30, 2003) :

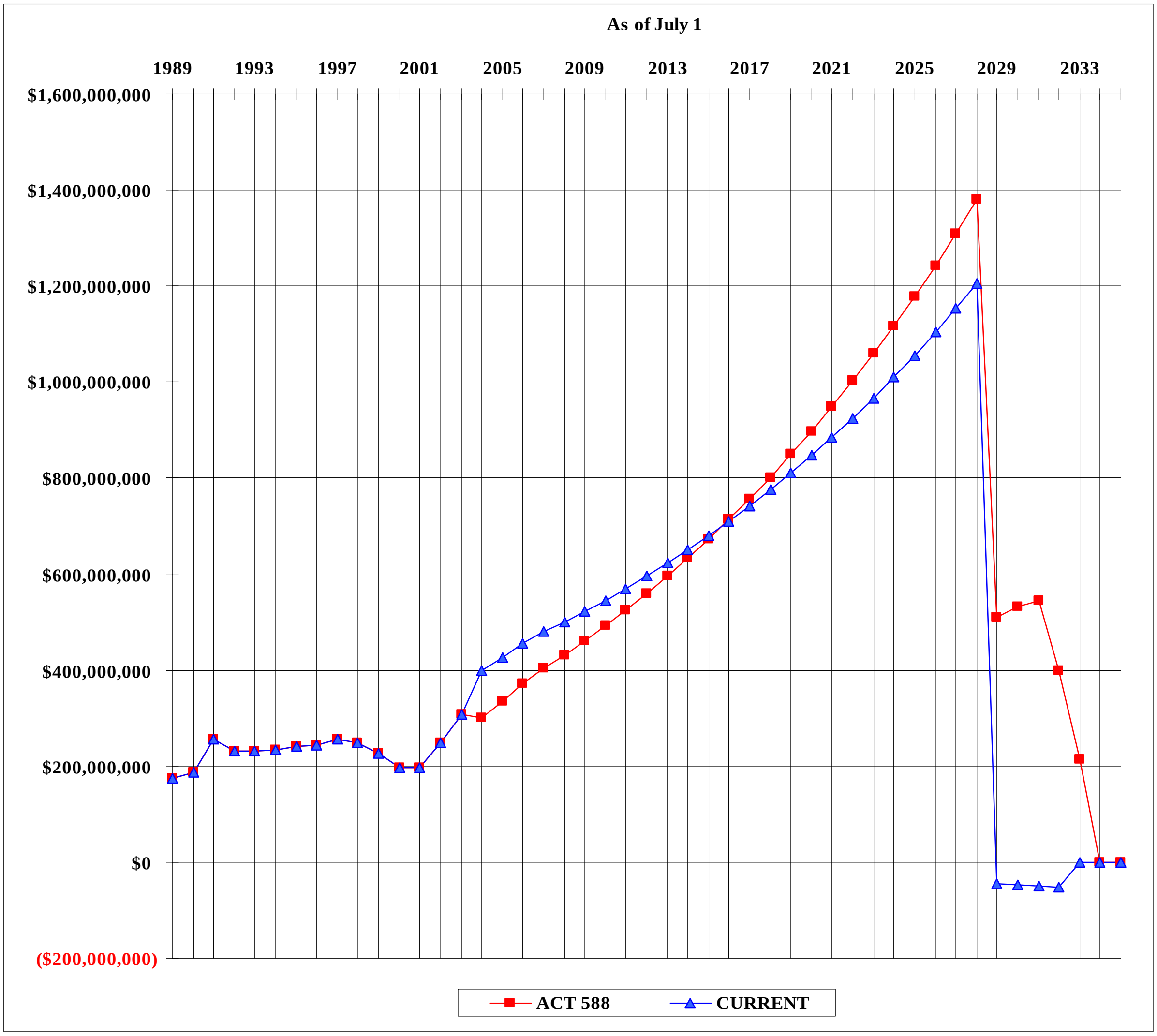
Change in liability (includes Experience Account): Payments increase at 4.5% per year to 2029

TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

UAL AMORTIZATION MID-YEAR PAYMENT COMPARISON

CURRENT AMORTIZATION versus ACT 588 LEGISLATION

Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes in liability prior to 6/30/2001: Level Dollar amortization until 2029

Changes 6/30/2001 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

Experience Account: 30-year amortization (Payments increasing 4.5% per year)

Changes beginning 6/30/2004: Level Dollar amortization for 30 years.

CURRENT (June 30, 2003) :

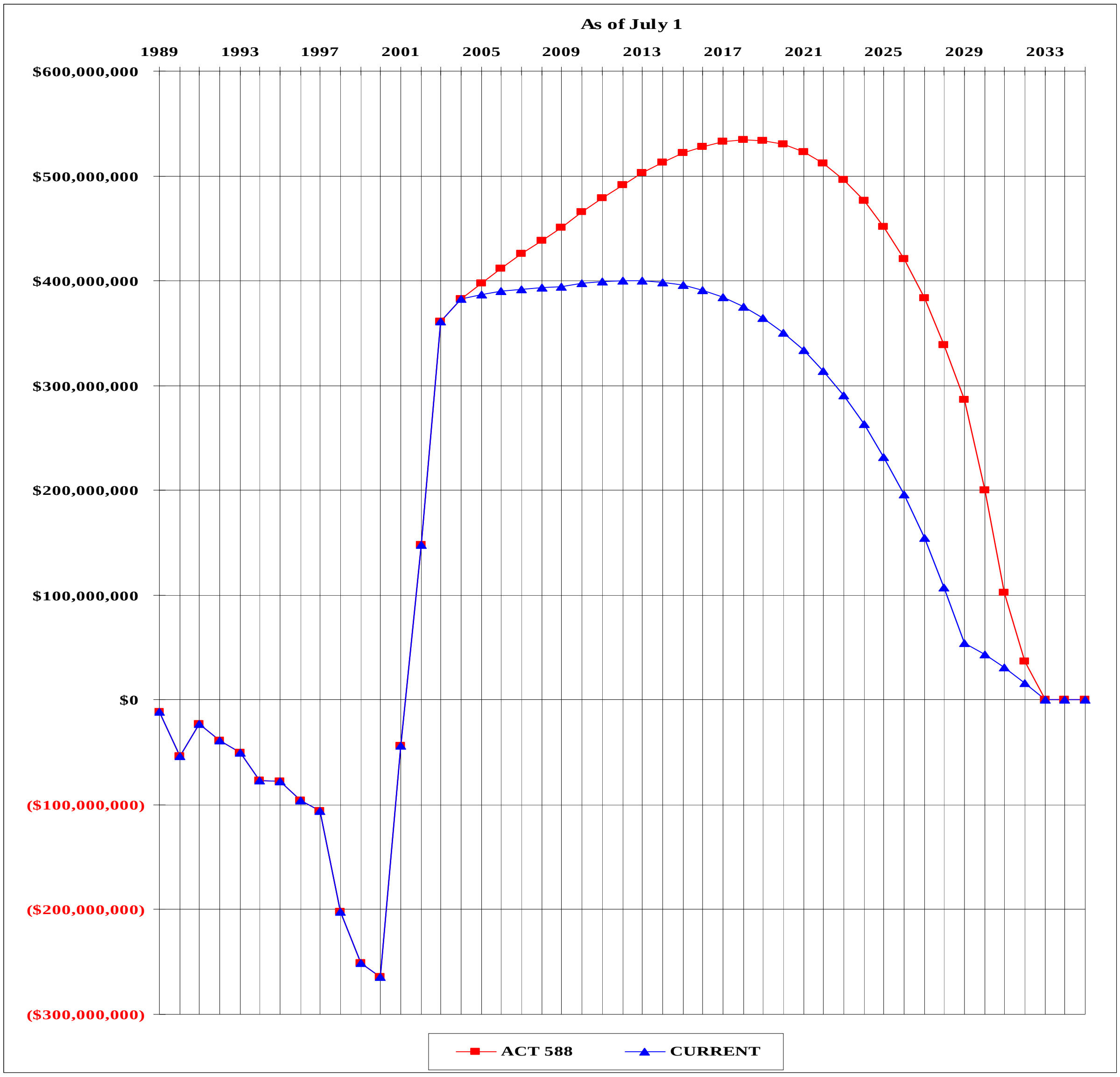
Change in liability (includes Experience Account): Payments increase at 4.5% per year to 2029

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

UNFUNDED ACCRUED LIABILITY (UAL) BALANCE COMPARISON

CURRENT AMORTIZATION versus ACT 588 LEGISLATION

Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes in liability prior to 6/30/2001: Level Dollar amortization until 2029

Changes 6/30/2001 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

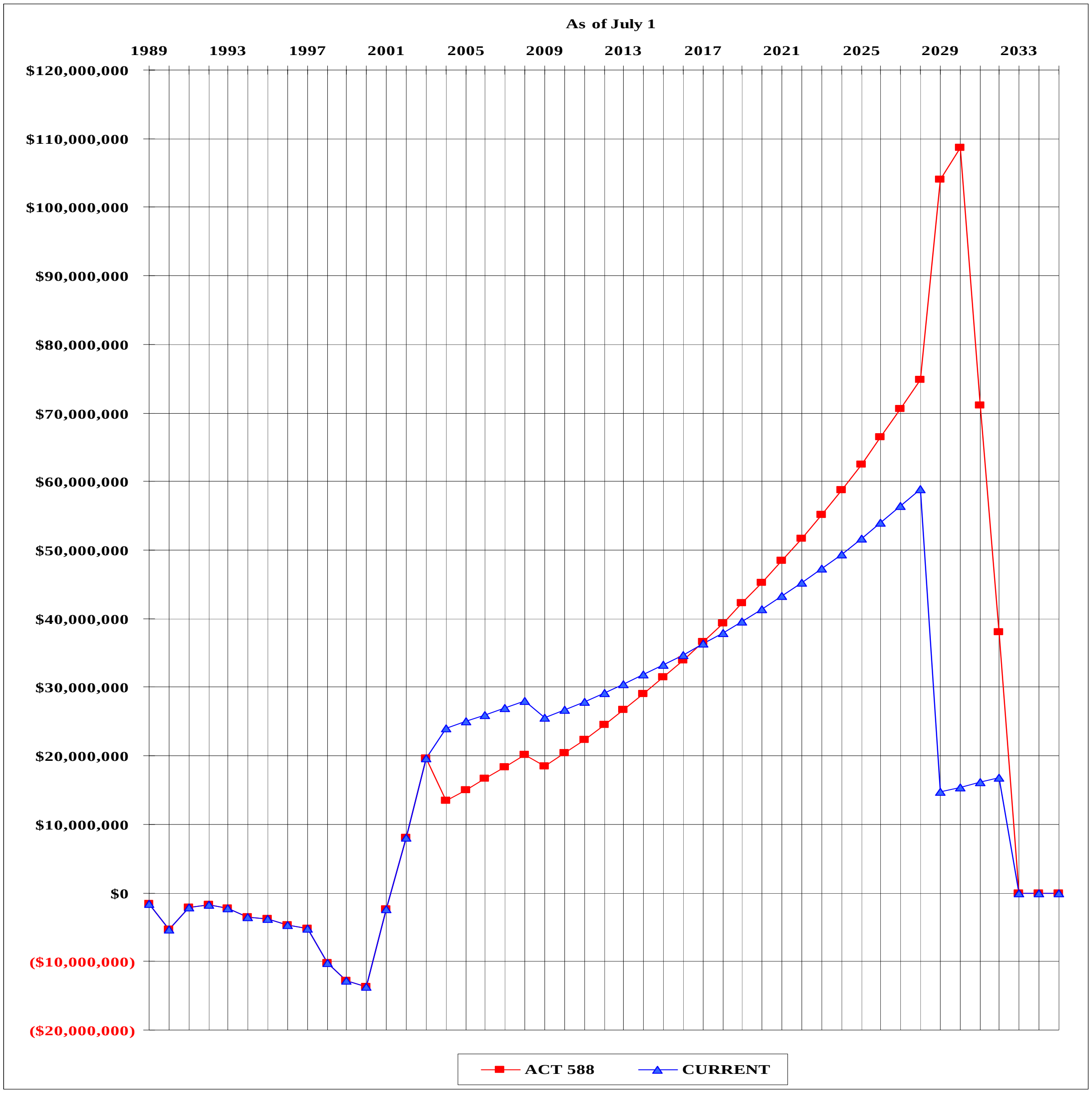
Changes beginning 6/30/2004: Level Dollar amortization for 30 years.

CURRENT (June 30, 2003) :

Change in liability : Payments increase at 4.5% per year to 2029

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
UAL AMORTIZATION MID-YEAR PAYMENT COMPARISON
CURRENT AMORTIZATION versus ACT 588 LEGISLATION

Values Projected to June 30, 2004



ACT 588 (June 30, 2004) :

Changes in liability prior to 6/30/2001: Level Dollar amortization until 2029

Changes 6/30/2001 to 2003: 30-year amortization, from year of occurrence (Payments increasing 4.5% per year)

Changes beginning 6/30/2004: Level Dollar amortization for 30 years.

CURRENT (June 30, 2003) :

Change in liability : Payments increase at 4.5% per year to 2029

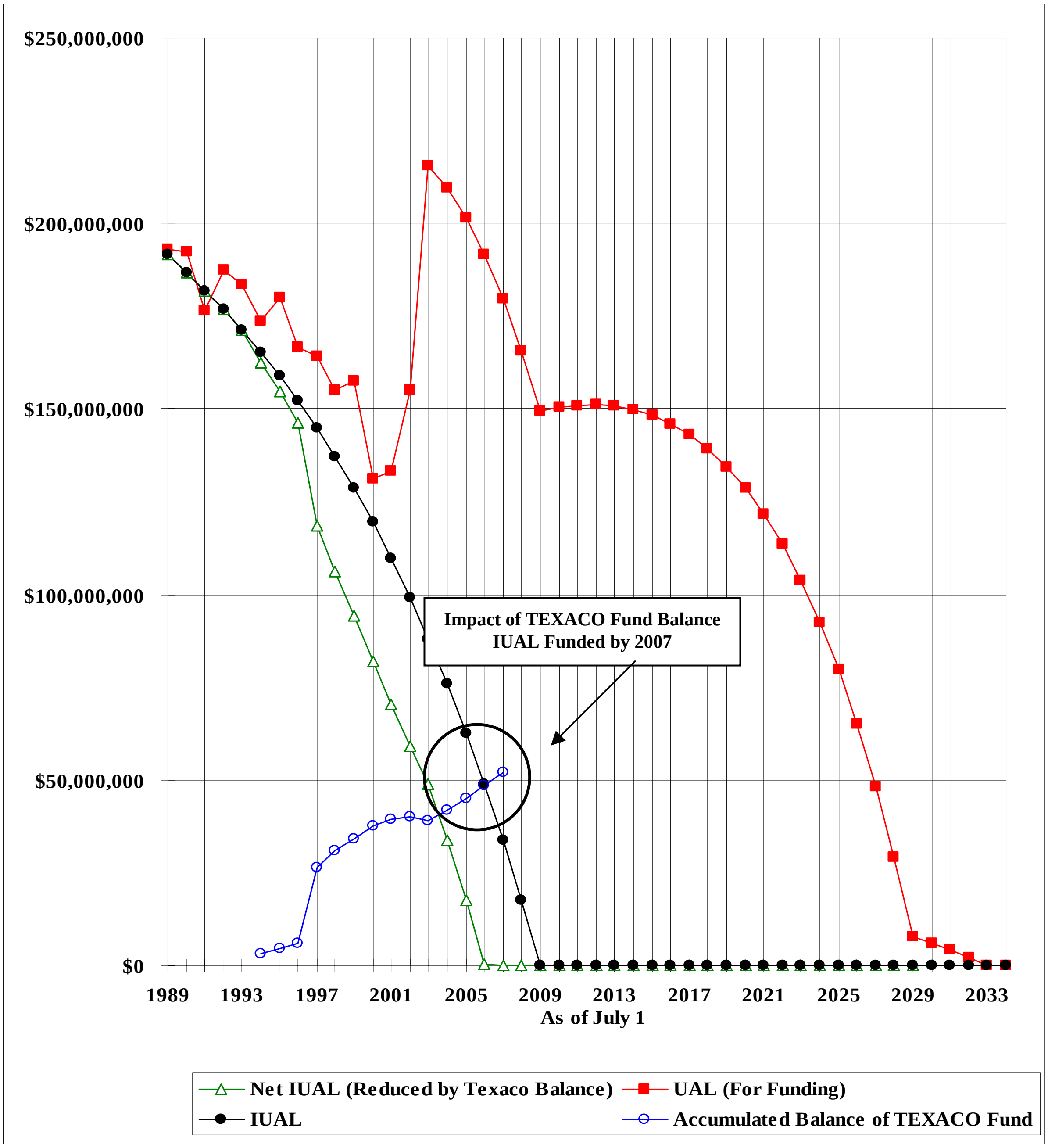
STATE POLICE PENSION & RETIREMENT SYSTEM

MEASURE OF FUNDING PROGRESS

UNFUNDED ACCRUED LIABILITY BALANCE

IMPACT OF TEXACO PAYMENT ON IUAL

Values as of June 30, 2003



Note: prior to FY 1993 amortization payments are based on Act 81 (RS 1988) schedule; subsequent payments are based on Act 257 (RS 1992) schedule.

2. Future Investment Experience

Issue

The amazing growth in assets, fueled by double-digit returns, has retracted and trust investments are experiencing returns which will move the average towards traditional expectations underlying our long term actuarial assumed rate.

Funded Ratios

Our economy was strong during the nineties and we were fortunate that our investments provided very favorable returns, as is expected in a bull market phase of a market cycle. Hopefully, we will be able to retain a portion of this actuarial investment gain because of the underlying technological revolution.

Unfortunately, we cannot expect to avoid actuarial investment losses if our funding return rate is appropriate (8.25% for LASERS and TRSL). Since most of the improvement in funded ratios, assets to liabilities, during this period resulted from actuarial investment gains, it is reasonable to expect a retraction with future actuarial losses.

If the actuarial assumptions are realized, as should be expected, investment actuarial gains and losses (returns under or over the assumed 8.25% rate) should zero out, leaving outstanding balances of the original IUAL plus any additional liability charges. This includes charges for benefit enhancements including COLAs, early retirement allowances, death benefits, DROP Account benefits, and so forth.

Unfunded liabilities are amortized under an increasing payment schedule. Current payments under these schedules are not yet high enough to cover even the required interest charges, so the initial balances of each schedule have not been reduced. Therefore, as future actuarial investment losses offset the past gains, funded ratios will shrink back to their original values and lower. It is actuarially unsound to assume otherwise.

*Annual Rates of Return **
(Market Value Basis)

	Fiscal Year				**5 Year Average** Annual Return**	**Expected Long Term Actuarial Return**
	2003	*2002*	*2001*	*2000*		
State Systems:						
LASERS	3.83%	-5.63%	-6.25%	11.14%	**2.06%**	***8.25%***
TRSL	2.16%	-8.08%	-4.73%	13.58%	**2.06%**	***8.25%***
STPOL	5.13%	-2.82%	-0.56%	4.59%	**2.39%**	***7.50%***
LSERS	3.76%	-3.44%	-1.85%	7.96%	**3.19%**	***7.50%***
Statewide Systems:						
ASSR	15.3%	-4.9%	-10.1%	7.7%	**2.2%**	***8.0%***
CCRS	2.9%	-3.0%	-1.5%	4.2%	**2.5%**	***8.0%***
DARS	2.8%	-9.1%	-9.7%	17.1%	**1.4%**	***8.0%***
FRS	5.4%	-3.7%	-2.9%	3.5%	**1.7%**	***7.0%***
MERSA	4.4%	-1.8%	-4.2%	9.1%	**3.0%**	***8.0%***
MERSB	3.8%	-2.8%	-4.2%	8.4%	**2.5%**	***8.0%***
MPERS	3.8%	-5.3%	-3.4%	3.7%	**1.5%**	***7.0%***
PERSA	15.6%	-2.7%	-0.8%	7.2%	**4.4%**	***8.0%***
PERSB	15.9%	0.0%	2.7%	5.4%	**5.5%**	***8.0%***
RVRS	3.3%	-3.0%	5.9%	0.8%	**2.3%**	***8.0%***
SPRF	4.2%	-3.0%	-0.8%	5.2%	**2.2%**	***8.0%***

***** Values based on 2003 Valuation and 6/30 FYE, except Assessors' (9/30) and Parochial (12/31).

** Five year compounded average annual return on a Market Value basis.

3. Impact of Investments and Benefit Increases on Funded Ratios

Concern

The market's retrenchment since FY 2001 and added liability for benefit increases have had a considerable impact on overall funding of the retirement systems.

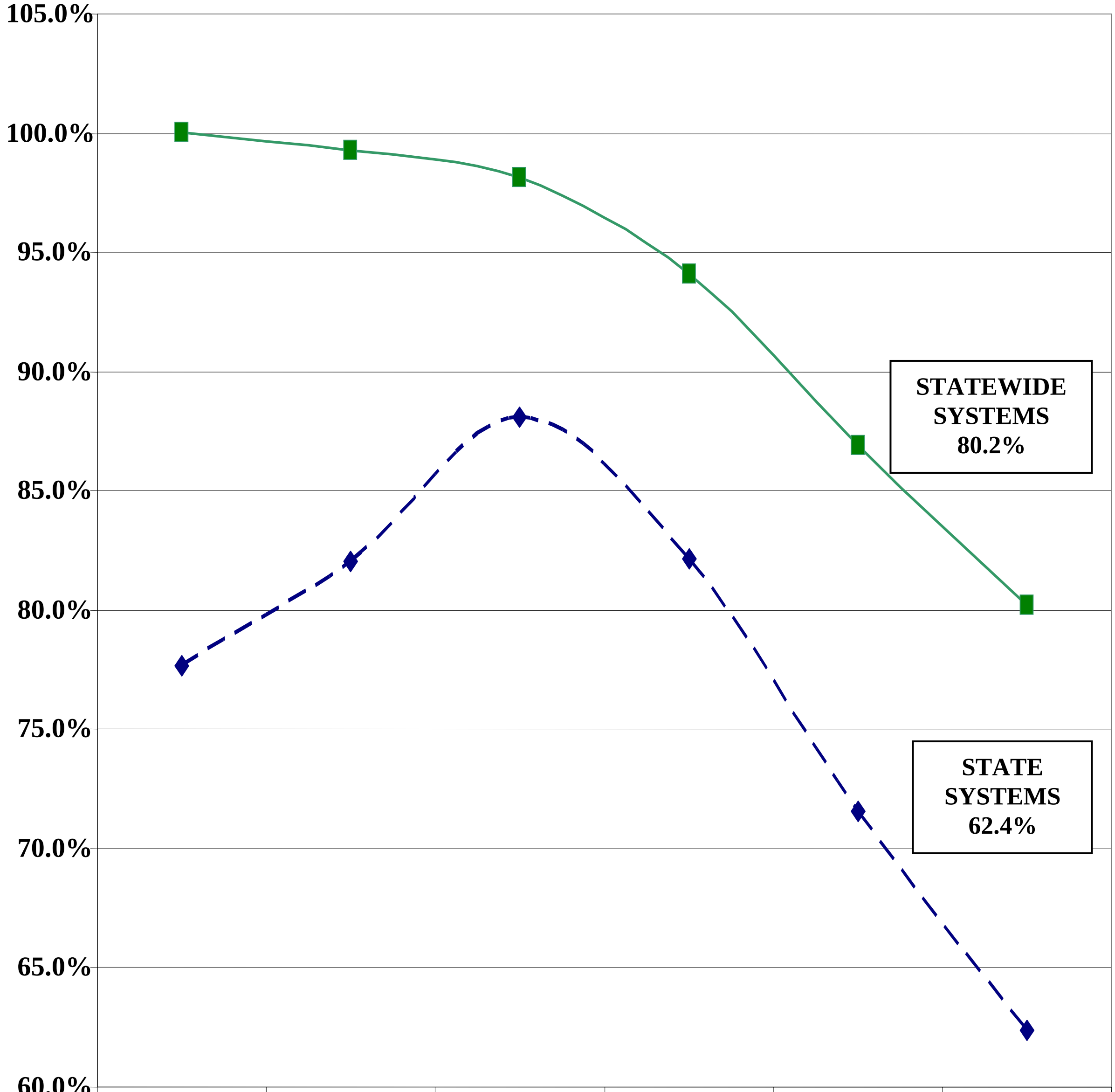
Funded ratios had improved considerably since the 1989 constitutional mandate for actuarial funding. Favorable investment performance accelerated this improvement until fiscal year 2000. However, subsequent investment losses and liabilities added for benefit enhancements have since placed a burden on funding levels. The reversal is seen by comparing Actuarial Value of Assets (AVA) to Actuarial Value of Projected Accrued Benefits (PBO).

FUNDED RATIOS (*AVA / PBO*)

	Fiscal Year					
	2003	***2002***	***2001***	***2000***	***1999***	***1998***
State Systems:						
LASERS	**59.7%**	67.2%	76.3%	80.9%	78.3%	76.6%
TRSL	**62.4%**	72.0%	82.7%	88.8%	80.1%	74.7%
STPOL	**59.4%**	73.5%	77.1%	72.0%	66.8%	60.3%
LSERS	**77.2%**	90.7%	114.5%	133.7%	134.4%	126.5%
State Total	**62.4%**	**71.5%**	**82.2%**	**88.1%**	**82.0%**	**77.7%**
Statewide Systems:						
ASSR	**59.5%**	61.3%	66.4%	73.6%	74.9%	75.7%
CCRS	**67.8%**	72.5%	76.6%	78.3%	74.7%	70.1%
DARS	**103.7%**	117.7%	128.5%	131.9%	129.7%	128.8%
FRS	**72.3%**	74.9%	82.3%	86.0%	92.8%	94.3%
MERSA	**78.8%**	85.5%	91.0%	92.4%	92.9%	94.3%
MERSB	**81.3%**	87.4%	92.3%	101.9%	100.6%	96.3%
MPERS	**77.4%**	95.6%	105.6%	109.4%	110.6%	112.5%
PERSA	**87.9%**	90.9%	99.1%	102.0%	101.5%	100.1%
PERSB	**106.3%**	108.4%	117.8%	130.3%	128.9%	129.4%
RVRS	**91.5%**	97.7%	104.2%	104.8%	112.9%	117.7%
SPRF	**81.9%**	84.2%	87.8%	93.8%	94.4%	98.1%
Statewide Total	**80.2%**	**86.9%**	**94.1%**	**98.1%**	**99.3%**	**100.0%**
All Systems	**65.5%**	**74.2%**	**84.3%**	**89.8%**	**84.9%**	**81.2%**

Funded Ratio - PBO Covered by AVA

Actuarial Value of Assets / Projected Accrued Benefit Liability



	1998	1999	2000	2001	2002	2003
State	77.7%	82.0%	88.1%	82.2%	71.5%	62.4%
Statewide	100.0%	99.3%	98.1%	94.1%	86.9%	80.2%

4. Impact of Investments and Benefit Increases on Contributions

Issue

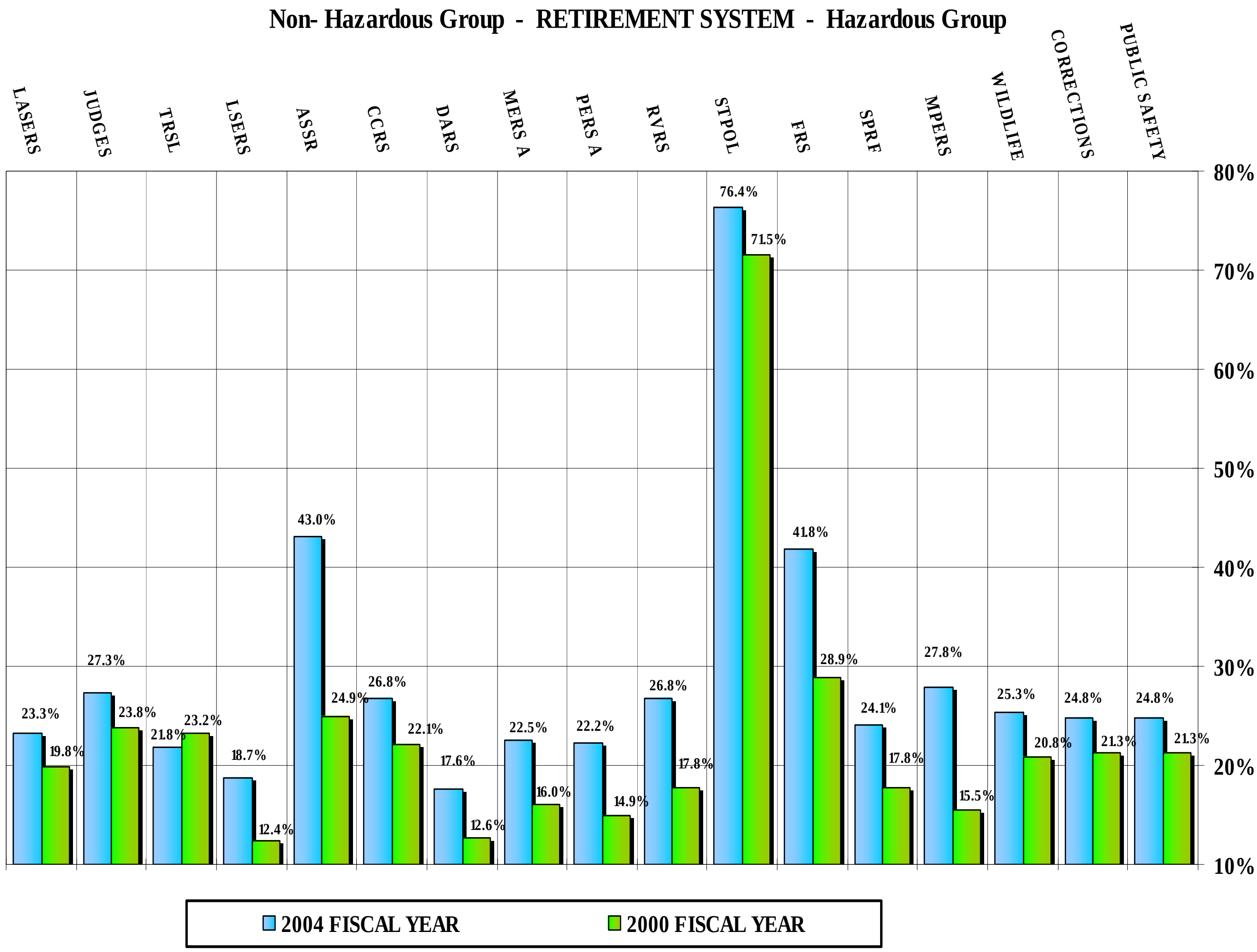
Investment losses and benefit increases are impacting on funding requirements.

Much of the funding impact due to favorable investment returns realized until fiscal year 2000 has been offset by the cost of benefit improvements. Since the market drop in fiscal year 2001, contribution requirements have increased for most systems and continue to be affected by softer returns. The following exhibits illustrate the impact on contribution requirements using total projected rates. These rates reflect the combined contributions from all sources (member and public) for each plan's fiscal year as a percentage of member payroll.

TOTAL PROJECTED RATES
AS % OF MEMBER PAYROLL

	Fiscal Year				
	2004	***2003***	***2002***	***2001***	***2000***
State Systems:					
LASERS	23.30%	21.6%	20.5%	20.5%	19.8%
TRSL	21.80%	21.1%	21.1%	22.2%	23.2%
STPOL	76.36%	73.0%	64.4%	63.8%	71.5%
LSERS	18.70%	14.5%	13.5%	12.4%	12.4%
Statewide Systems:					
ASSR	43.04%	43.1%	31.8%	26.7%	24.9%
CCRS	26.76%	24.1%	22.2%	22.2%	22.1%
DARS	17.62%	15.5%	11.7%	11.3%	12.6%
FRS	41.77%	38.4%	30.3%	35.6%	28.9%
MERSA	22.54%	19.5%	18.4%	17.5%	16.0%
MERSB	15.03%	13.5%	10.9%	10.3%	11.5%
MPERS	27.82%	21.1%	19.5%	16.5%	15.5%
PERSA	22.21%	17.7%	15.9%	15.9%	14.9%
PERSB	9.20%	7.7%	5.6%	5.6%	4.9%
RVRS	26.76%	23.9%	22.7%	23.7%	17.8%
SPRF	24.08%	22.3%	21.8%	19.0%	17.8%

STATE & STATEWIDE RETIREMENT SYSTEMS
CHANGE IN PROJECTED TOTAL CONTRIBUTION RATES
(Member and Public Sources as a Percent of Payroll)
FY 2004 versus FY 2000



5. Legislation Enacted to Reduce Contribution Requirements for Municipal Police Employees' Retirement System (MPERS) and Firefighters' Retirement System (FRS).

Issue

Investment losses and benefit increases have had a considerable impact on the funding requirements for the Firefighters' and Municipal Police retirement systems. Legislation of the 2003 Regular Session softens the impact for Fiscal Year 2004.

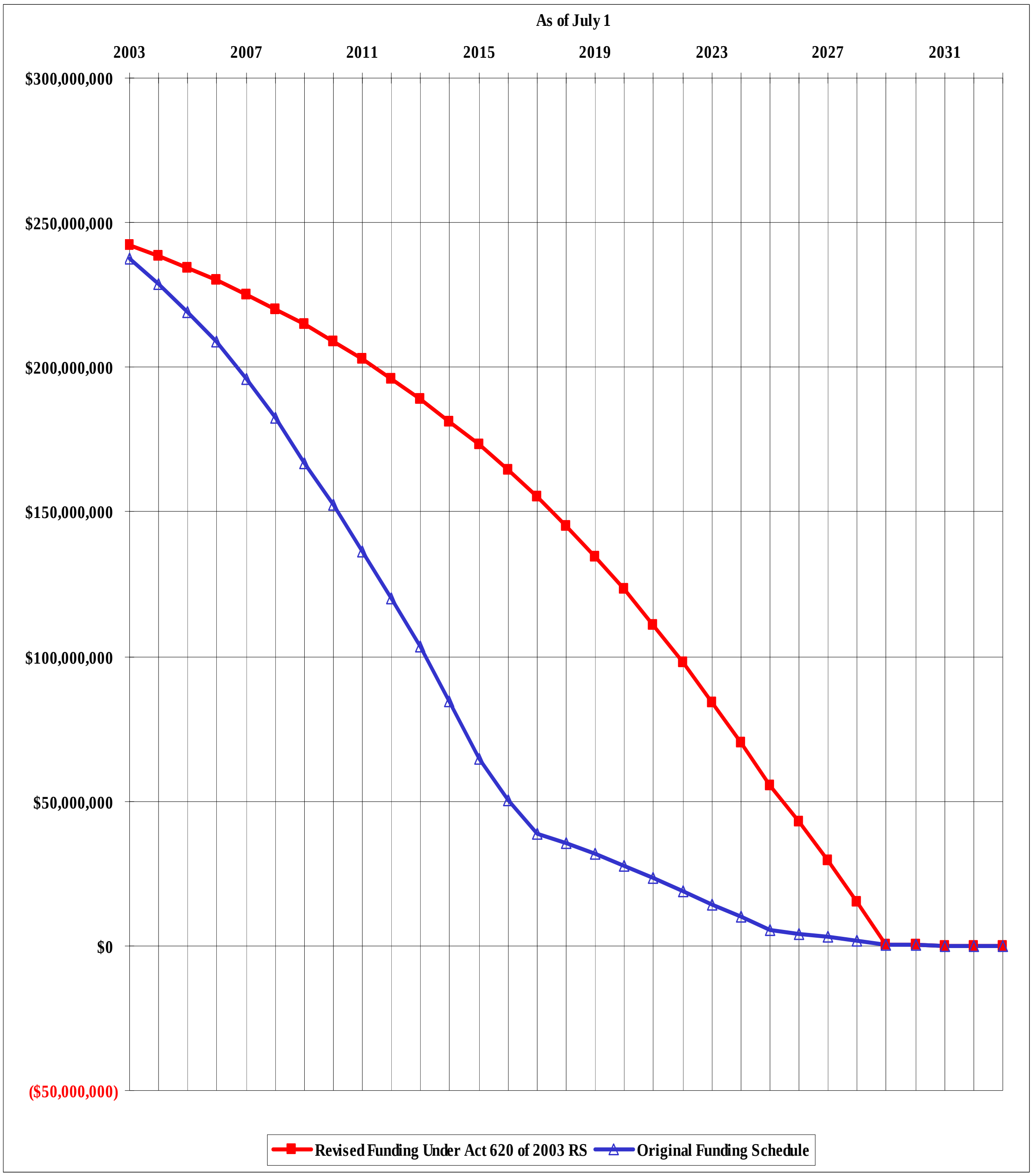
Since the market drop in fiscal year 2001, contribution requirements have increased for most systems. The impact on Firefighters' and Municipal Police has been more pronounced, since accelerated contribution requirements have exceeded amounts available from the Insurance Premium Tax Fund (IPTF). Requirements in excess of the IPTF supplement and targeted rates have been impacting as the progression of liability added for benefits and mergers are uncovered by investment losses. These plans' are expected to continue to be affected by actuarial investment losses, at least into the next several years. Enacted legislation is intended to soften some of the increase by reamortizing actuarial losses over an extended payment period.

For MPERS, the amortization period for actuarial experience and changes was increased from fifteen years to thirty years, at level dollar payments, commencing with fiscal year 2002. This reduced the FY 2004 contribution rate from 18.25% to 15.25%, $5.9 million lower based on projected payroll.

For FRS, all outstanding bases as of June 30, 2002, excluding merger bases, were combined and reamortized at level dollar payments over the period ending in fiscal year 2029. This reduced the FY 2004 contribution rate from 25.25% to 21.0%, $5.1 million based on FY 2003 projected payroll.

The following illustrations show the impact on UAL and amortization payments as of FY 2003.

FIREFIGHTERS' RETIREMENT SYSTEM
UNFUNDED ACCRUED LIABILITY (UAL) BALANCE COMPARISON
ACT 620 REGULAR SESSION, 2003
APPLICABLE FOR FISCAL YEAR 2004 EMPLOYER CONTRIBUTION

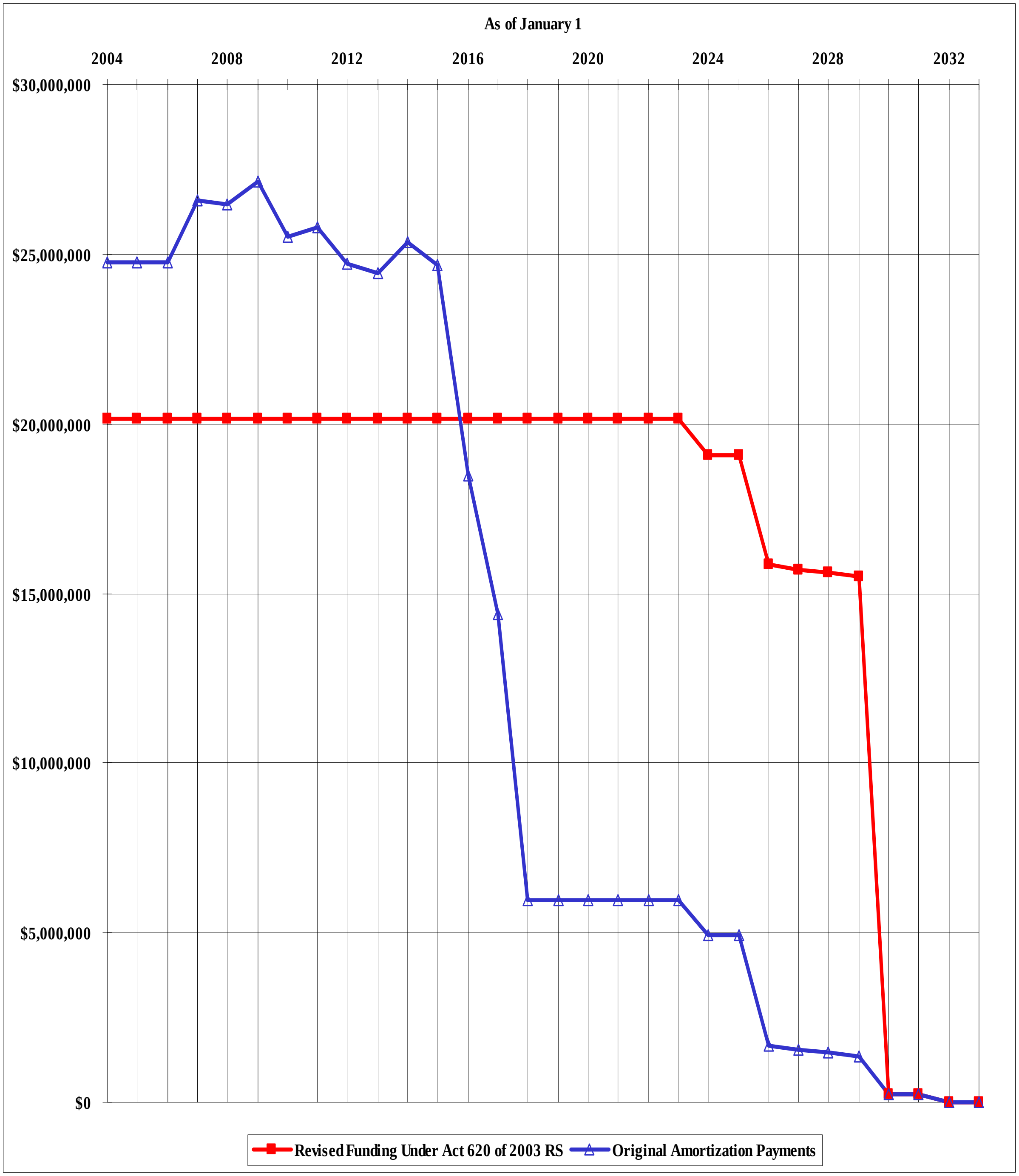


FIREFIGHTERS' RETIREMENT SYSTEM

UNFUNDED ACCRUED LIABILITY (UAL) PAYMENT COMPARISON

ACT 620 REGULAR SESSION, 2003

APPLICABLE FOR FISCAL YEAR 2004 EMPLOYER CONTRIBUTION

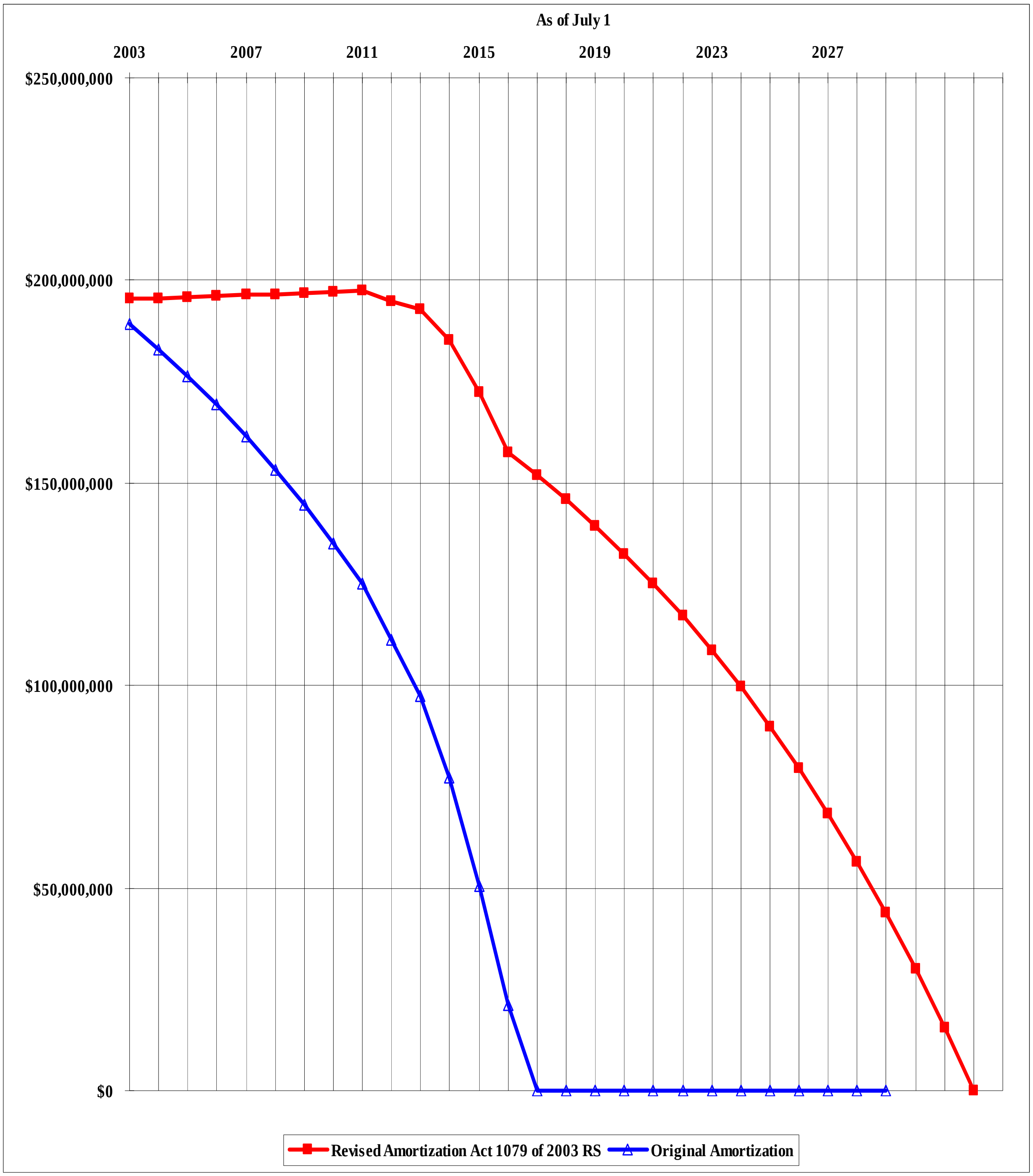


MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM

UNFUNDED ACCRUED LIABILITY (UAL) BALANCE COMPARISON

ACT 1079 REGULAR SESSION, 2003

APPLICABLE FOR FISCAL YEAR 2004 EMPLOYER CONTRIBUTION

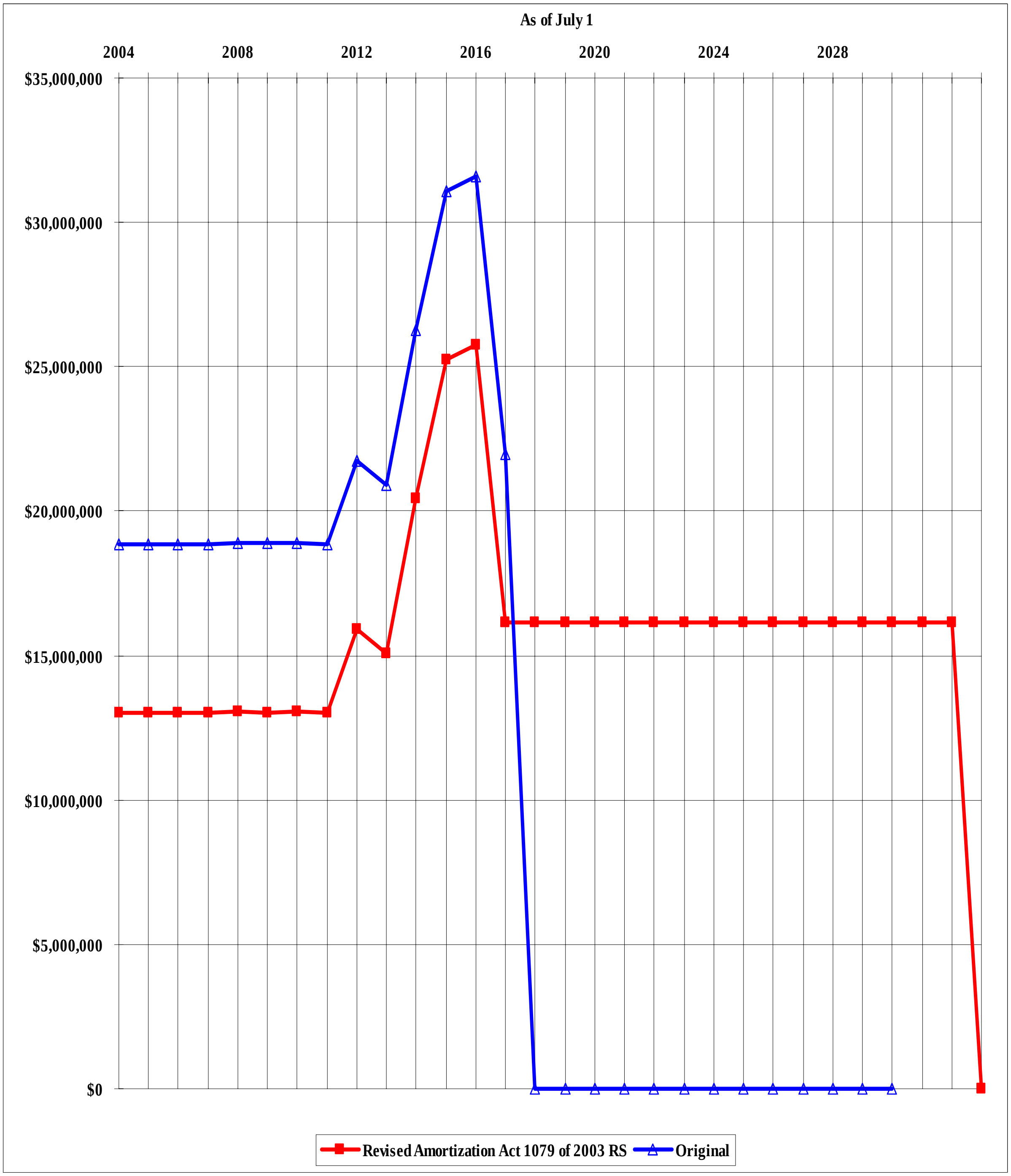


MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM

UNFUNDED ACCRUED LIABILITY (UAL) PAYMENT COMPARISON

ACT 1079 REGULAR SESSION, 2003

APPLICABLE FOR FISCAL YEAR 2004 EMPLOYER CONTRIBUTION



6. Cash Flow Concerns

Concern

Excluding investment income, the annual additions of the state systems do not meet their annual deductions. This could force the sale of investments into an unfavorable market or dictate investment strategies to support cash flow requirements.

The larger state systems had committed significant allocations into equities (including alternative investments, private placements, REITS, and venture capital) and away from fixed income investments. These investments tend to be less liquid in bear markets, require additional cash commitments, and may pay minimal interest and dividend income.

Should the systems experience net investment losses for a sustained period it is probable they will be forced to liquidate certain investments at a loss to cover the plan benefit payments and expenses. Dividend and interest income alone does not adequately cover the net negative cash flow in some of the state systems.

The following exhibit shows additions (contributions) and deductions (benefits/expenses) for each state system as of June 30, 2003.

NET EXTERNAL CASH FLOW

Excluding Net Investment Income & Expense

STATE SYSTEMS
As of June 30, 2003
($millions)

System	Amounts Added	Amounts Deducted	Net External Cash Flow
	(a)	(b)	(a) - (b)
LASERS	$466.9	$580.9	**($114.0)**
TRSL	$707.6	$1,036.8	**($329.2)**
STPOL	$29.2	$23.1	**$6.1**
LSERS	$50.2	$133.1	**($82.9)**
Combined	**$1,253.9**	**$1,773.9**	**($520.0)**

As shown below, the relationship of annual benefits/ expenses to contributions has widened since last year. The trust's reliance on dividend and interest income to meet its obligations has increased. Otherwise the system must divest a portion of their securities investments for this purpose.

CHANGE IN NET EXTERNAL CASH FLOW

Excluding Net Investment Income & Expense

STATE SYSTEMS
FY 2001 to FY 2003
($millions)

System	FY 2003	FY 2002	FY 2001
LASERS	($114.0)	($124.6)	($100.8)
TRSL	($329.2)	($277.8)	($237.7)
STPOL	$6.1	$5.5	$5.6
LSERS	($82.9)	($74.3)	($70.8)
Combined	**($520.0)**	**($471.2)**	**($403.7)**

7. Demographic Experience - TRSL

Issue

For TRSL the ratio of male to female members has steadily declined since 1979. As females become a greater portion of total membership, the cost implications to TRSL can be substantial because of the mortality differential.

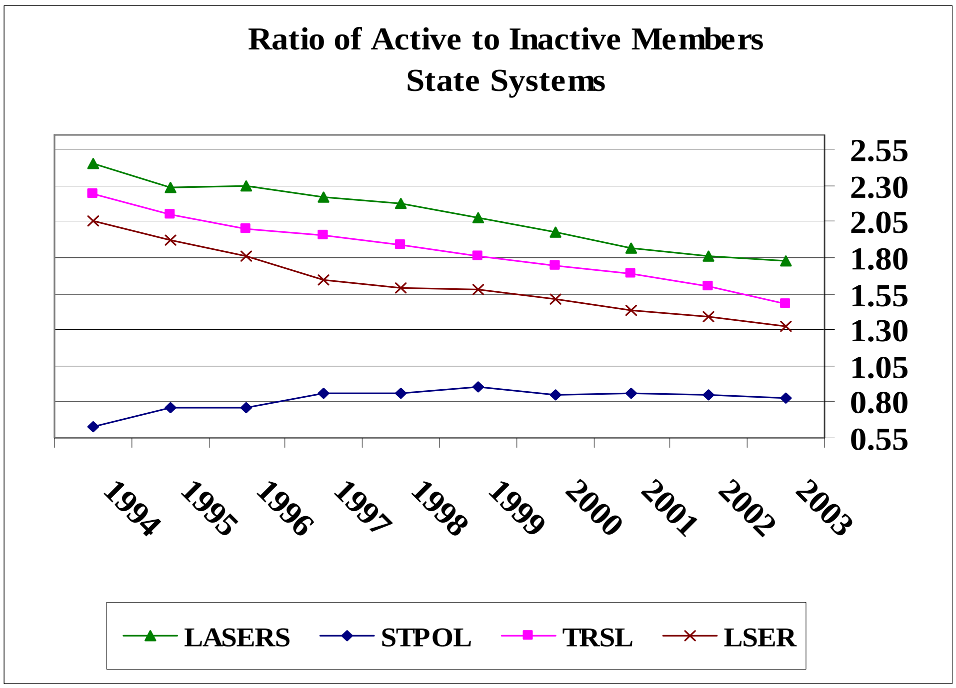
In 1979, males represented about 28.9% of the total active group. By 1993, that ratio had decreased to 19.7%. The ratio continued a decreasing pattern that has recently slowed, and in 2003 is now 17.1%. Based on current actuarial assumptions for funding, female annuity purchase rates are 3% higher than male rates at age 40, and 12.3% higher at age 65. Since a greater proportion of females will also enter their retirement years, the cost impact continues and is even greater, for example, at age 80 where the annuity purchase rate is 19.5% higher for females.

Use of sex distinct mortality rates assist in the actuarial funding of an emerging female liability trend. We may expect future increases in TRSL's annual cost because of this trend.

8. Active versus Inactive Trends

Concern

There is a decreasing trend in the number of active to inactive members for state and statewide retirement systems. Trend-line projections indicate that the ratios could be approaching 1.0 for some systems by the end of the decade. This trend has a direct impact on cash flow and employer funding requirements as benefit payouts accelerate.



TRSL In 1994 the ratio of active to inactive members for TRSL stood at 2.24. By 2003 the ratio fell to 1.48.

LASERS The ratio of active to inactive membership has also decreased for LASERS, from 2.45 in 1994 down to 1.78 in 2003.

LSERS LSERS pattern is more striking, the ratio dropping from 2.06 in 1994 to 1.33 in 2003.

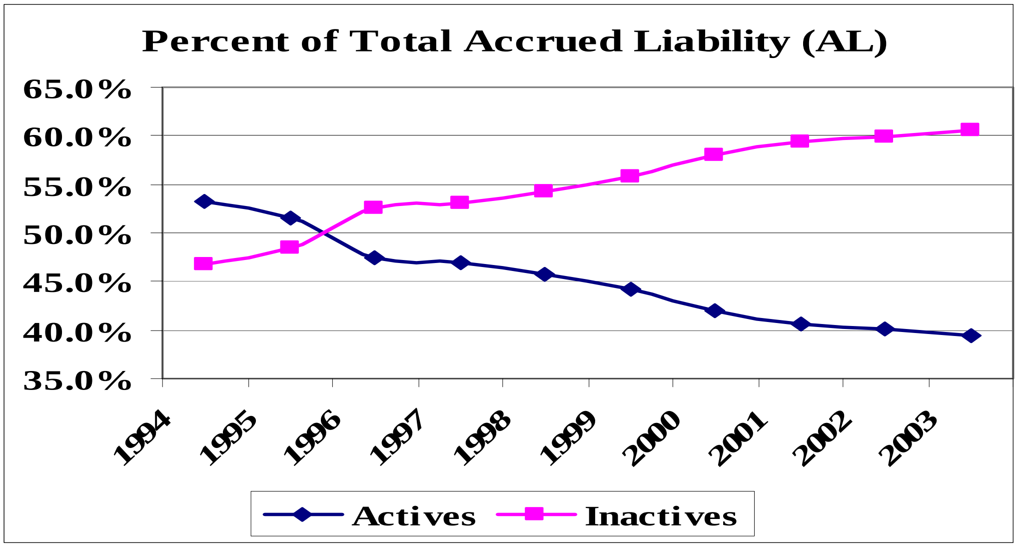
STPOL The ratio for State Police has been below 1.0 since 1989. As of 2003, there are 948 active members and 1,141 inactive members, a ratio of 0.83.

Accrued Liability Trends

As expected the increasing trend in the number of inactives relative to actives causes a similar pattern with accrued liability. The following table illustrates the impact on emerging liabilities for the state plans combined. Since 1994, the inactive liability has increased from 46.8% up to 60.6% of the total accrued liability.

Combined State System Liability Funding Trends

Percent of Total Accrued Liability		
Fiscal Year:	**Actives**	**Inactives**
1994	53.2%	46.8%
1995	51.6%	48.4%
1996	47.4%	52.6%
1997	47.0%	53.0%
1998	45.7%	54.3%
1999	44.3%	55.7%
2000	42.0%	58.0%
2001	40.6%	59.4%
2002	40.1%	59.9%
2003	**39.4%**	**60.6%**

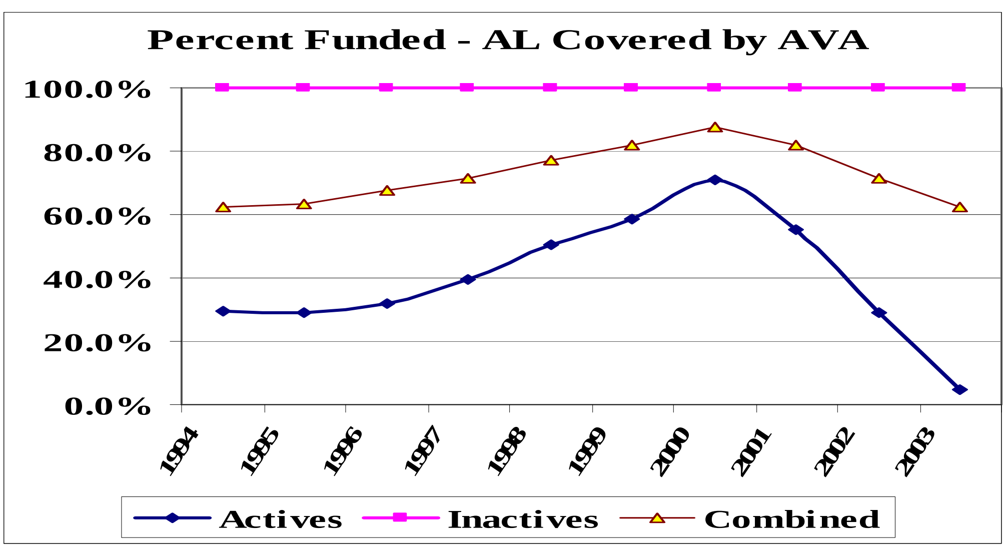


Percent Funded

The following set of columns demonstrates the development of funding for active and inactive accrued liabilities. Assets are first allocated to cover 100% of the inactive liabilities. The remainder is then compared to active liabilities. Since 1994, the funded percent for active liabilities had increased from 29.5% to 71.0% in FY 2000. By FY 2003 the funded percent for actives reversed dropping to 4.9%.

Combined State System Liability Funding Trends

Percent Funded			
Fiscal Year:	**Actives**	**Inactives**	**Combined**
1994	29.5%	100.0%	62.5%
1995	29.1%	100.0%	63.4%
1996	31.8%	100.0%	67.7%
1997	39.6%	100.0%	71.6%
1998	50.5%	100.0%	77.4%
1999	58.7%	100.0%	81.7%
2000	71.0%	100.0%	87.8%
2001	55.1%	100.0%	81.8%
2002	29.1%	100.0%	71.6%
2003	**4.9%**	**100.0%**	**62.5%**



Statewide Systems

The statewide retirement systems show varying degrees of change in the ratio of active to inactive members over the 10-year period 1994 to 2003.

Ratio of Active To Retired Population

Fiscal Year:	1994	2003	Trend
ASSR	1.70	1.27	**down**
CCRS	3.00	2.53	**down**
DARS	4.24	3.30	**down**
FRS	2.08	2.28	**-**
MERSA	2.64	1.93	**down**
MERSB	2.74	2.39	**down**
MPERS	1.41	1.57	**up**
PERSA	3.08	2.59	**down**
PERSB	4.28	4.17	**-**
RVRS	1.72	1.51	**down**
SPRF	4.89	5.06	**up**
Total Statewide	**2.78**	**2.61**	**down**

9. Impact of COLA Increases on Retiree Benefits

Concern

The average benefit since retirement of a retiree from the four state retirement systems has increased 1.3% per year. Comparable to this period, the CPI (Consumer Price Index) has increased an average of 2.8% per year. The 1.5% difference has narrowed sharply compared to the 2.6% spread in our 6/30/96 study with values of 1.1% and 3.7%, respectively.

COLA Policy

At the request of the legislature, the Legislative Actuary has continued to study the impact of inflation on retiree benefit levels. Unfortunately, the state has had to focus on improving the funding position for future benefits that are promised by law. This has left any provisions for retiree COLA increases to erratic solutions and special interest legislation. Existing methods have not given desired results and leave retirees unsure of the state's policy toward COLAs. Also of concern is the impact that these ad hoc methods have had on overall funding. Since providing our Experience Account analysis to the Legislature in 1996, we have continued to focus on two issues:

1. The current method of detouring fund assets through the Experience Account for COLA benefit increases impacts the actuarial soundness of the funding methods and interest assumptions.

2. The study of retiree benefits and COLAs relate to employer/state benefit objectives and budgeting concerns. The adequacy and level of our retirees' benefits should be determined by the state, since the state, and related employers, are ultimately responsible for payment of all promised benefits.

Act 402 of the 1999 Regular Session established a COLA formula for TRSL and LASERS. The COLA provides an annual CPI increase for benefits up to 2%. This was extended to 3% under Acts 1016 and 1172 of the 2001 Regular Session if the system at least earns the actuarial assumed interest rate of

8.25%. The law also limited COLAs to the first $70,000 of benefit.

Any COLAs are dependent on the amount of positive balance of the Experience Account (EA). As of June 30, 2003, there were negative balances for both systems equal to a combined value of -$1.723 billion. Negative balances were expected to increase due to actuarial losses (earnings below the 8.25% assumed rate) that are credited to the EA. This removes the possibility of additional retiree benefit COLAs for some time. However, Act 588 of the 2004 Regular Session eliminates any negative balances existing on June 30, 2004 and mandates that future balances cannot be negative. This will accelerate the possibility of granting COLAS.

For comparison, the following exhibits display the average annual rate of increase (COLA) in actual benefits for those who retired from the state systems 5, 10, 15, 20, 25, 30 and 35 years ago against CPI inflation increases over the same periods, as of June 30, 2003.

AVERAGE ANNUAL BENEFIT INCREASE FOR RETIREES SINCE RETIREMENT

Average Annual Rate of Increase vs. CPI From Retirement Date to 6/30/2003

STATE SYSTEMS COMBINED

Years Retired	Average Annual Rate of Increase	CPI *Comparison
0	0.0%	0.0%
5	1.2%	2.4%
10	1.3%	2.4%
15	1.2%	3.0%
20	1.4%	3.1%
25	2.1%	4.2%
30	2.0%	4.9%
35	2.1%	4.9%
Weighted Average	1.3%	2.8%

*Consumer Price Index (CPI) - All Urban Consumers: All Items; Not seasonally adjusted; U.S. City average

AVERAGE ANNUAL BENEFIT INCREASE FOR RETIREES SINCE RETIREMENT

Average Annual Rate of Increase vs. CPI From Retirement Date to 6/30/2003

LASERS

Years Retired	Average Annual Rate of Increase	CPI *Comparison
0	0.0%	0.0%
5	1.1%	2.4%
10	1.1%	2.4%
15	1.0%	3.0%
20	1.3%	3.1%
25	2.1%	4.2%
30	2.3%	4.9%
35	2.9%	4.9%
Weighted Average	1.2%	2.8%

TRSL

Years Retired	Average Annual Rate of Increase	CPI *Comparison
0	0.0%	0.0%
5	1.0%	2.4%
10	1.2%	2.4%
15	1.0%	3.0%
20	1.3%	3.1%
25	2.1%	4.2%
30	2.0%	4.9%
35	2.0%	4.9%
Weighted Average	1.2%	2.8%

*Consumer Price Index (CPI) - All Urban Consumers: All Items; Not seasonally adjusted; U.S. City average

AVERAGE ANNUAL BENEFIT INCREASE FOR RETIREES SINCE RETIREMENT

Average Annual Rate of Increase vs. CPI From Retirement Date to 6/30/2003

LSERS

Years Retired	Average Annual Rate of Increase	CPI *Comparison
0	0.0%	0.0%
5	2.8%	2.4%
10	3.6%	2.4%
15	3.6%	3.0%
20	3.4%	3.1%
25	4.1%	4.2%
30	3.7%	4.9%
35	4.0%	4.9%
Weighted Average	3.2%	2.8%

STPOL

Years Retired	Average Annual Rate of Increase	CPI *Comparison
0	0.0%	0.0%
5	0.9%	2.4%
10	0.8%	2.4%
15	0.7%	3.0%
20	0.9%	3.1%
25	1.6%	4.2%
30	1.7%	4.9%
35	2.0%	4.9%
Weighted Average	0.9%	2.8%

*Consumer Price Index (CPI) - All Urban Consumers: All Items; Not seasonally adjusted; U.S. City average

10. LEGISLATIVE CONCERN: Operation of Experience Account - LASERS AND TRSL

Concern

Although the Experience Account (EA) balance may represent an amount of funds sufficient to cover the expected value of COLA benefits, it does not in itself provide the actual funding necessary to ultimately pay for COLA liabilities.

COLA Funding

The Experience Account is merely a temporary holding account for investment gains and losses. It does not fund COLA benefits. It only withholds and then releases portions of the investment experience derived from the plan's contributions (and earnings thereon). Those earnings are necessary to meet the actuarial assumed long-term average return of 8.25%. COLA's create additional benefit liability that increases the UAL. It is amortized as an actuarial charge and paid with additional employer contributions.

Expected Return

Key to ultimately achieving the expected return is that all investment income is credited to the asset base (contributions and earnings) from which it is derived. If income is diverted for other purposes the assumed rate will not be achieved. This in turn destroys the required match between future benefit payments and assets available to pay for them. Additional contributions will be required from the employer to restore the funding balance between future assets and liabilities.

Impact on Funding

With exceptional investment returns during the nineties, the EA allocations withheld considerable trust income from the actuarial funding valuation. This kept the employer's contribution requirements higher than would have been required if those trust assets had been included. **Unfortunately, when the reverse happens, and investments plummet as they did in 2001, considerable investment losses are withheld from funding and the contributions do**

not adequately fund the system's expected liabilities under the actuarial funding method. This exacerbates the fact that additional liabilities were added by COLA's when the account had a positive balance.

Impact on UAL

The legislative actuary recommends contribution rates independent of Experience Account interference. He asserts that the Experience Account is just a measuring device that the State can use to grant COLA's. The employer has total responsibility for funding the UAL balances.

The combined Valuation UAL of Teachers and LASERS was $8.86 billion as of June 30, 2003. The only means to avoid an increase in the UAL for future COLA's is to fund for them in advance, with additional appropriations. The plan's earnings are required to pay current projected liabilities.

Impact of Experience Account COLA Benefits on UAL

Experience Account Accumulations as of June 30, 2003
($millions)

System	LASERS	TRSL	Combined
Allocations	($386.3)	($372.6)	($758.9)
Interest	$142.6	$419.9	$562.5
Disbursements	$390.9	$1,135.8	$1,526.7
Balance	**($634.5)**	**($1,088.6)**	**($1,723.1)**

COLA Impact on UAL	**$390.9**	**$1,135.8**	**$1,526.7**

Act 588

Act 588 of the 2004 Regular Session requires existing negative balances in the Experience Account to be zeroed out and charged to the UAL balance as of June 30, 2004. The additional liability increases amortization payments for unfunded obligations of the plan, and the required employer contribution.

Normally these negative investment losses would either be offset by investment gains allocated to the EA or released when COLAs were granted. The Act further requires all EA balances to be zero as of July 1, 2004 and that they may never again be negative. This allows only for positive balances in the EA and speeds the potential for granting COLAs. **Unless additional funds are appropriated for any COLAs that are approved in the future, additional liability will be added to the UAL when the COLA is granted.**

11. LEGISLATIVE CONCERN: Minimum Employer Contribution Limits Under State Constitution

Concern

We are concerned of ramifications to the state if the Employer Credit Account is subsequently determined to be contrary to the constitutional minimum contribution requirements. Additionally, withdrawing assets from funding to establish a prior balance upsets the actuarial soundness of the funding method.

Constitutional Minimum

Louisiana's Constitution requires the legislature to set the member's contribution such that it will not exceed a fixed portion of the total contribution to the retirement system until the original UAL established in 1988 is fully funded. For example, to comply with the requirements, the employer must contribute at least 12.0 percent for LASERS and 11.8 percent for TRSL based on the employee contribution rates. Upon elimination of the original unfunded liability, the IUAL, the member's contribution cannot exceed the amount contributed on his behalf by the employer.

LSERS (School Employees') is the only state system that had eliminated the original unfunded liability. Thereafter, the constitutional minimum employer contribution, 6.0% of payroll, had exceeded the projected employer contribution and required excess payments by the employer.

Employer Credit Account

Act 1331 of the 1999 Regular Session allows state plans to reduce the annual employer contribution against balances in the Employer Credit Account (ECA). The ECA balance results from amounts held and invested in a special account that is allocated any excess employer payments when the statutory minimum is greater than the actuarial required contribution. Until Act 588 of the 2004 Regular Session, LSERS was the only state plan which had an ECA.

LSERS Results

Act 14 of the 2000 First Extraordinary Session set the beginning balance for this system at $56,754,405.

Under this act, through the plan year ending June 30, 2003, LSERS employers have omitted their entire 6% of pay contribution and charged it against the ECA. The balanced is expected to be depleted in the 2004 fiscal year. Since the projected contribution has now exceeded the minimum requirement, we do not expect the ECA to receive additional credits in the near future.

Members of LSERS, a significant portion being school bus drivers, were granted a pension benefit accrual rate increase to 3⅓% effective July 1, 2001. Previous rates varied from 2.5% to 3.0%. To help pay for this the member's future contribution rate was increased from 6.35% to 7.5%.

The employer pays for a significant portion of the substantial past service cost increase. As a result, the employer's projected actuarial cost increased to $18.3 million (7% of pay) from $3.7 million (1.5% of pay) in the prior year. The projected contribution required for fiscal year 2005 is $41.4 million (14.8% of pay). Since the ECA was established for LSERS additional new employer contributions have not been made to the trust. The total employer contribution requirement has been charged against trust assets held in the Employer Credit Account (ECA).

The funded ratio for FYE 2003 was 79.1%. At FYE 2002 it had been 90.5%, FYE 2001 was 102.9%, and FYE 2000 it was120.5%.

Act 588

Act 588 of the 2004 Regular Session allows TRSL and LASERS to establish an ECA effective June 30, 2004. These will act as separate investment accounts to hold excess employer contributions, if any, resulting between the new 15.5% floor requirement and the greater of the actuarial required amount or the Constitutional minimum. The contributions and interest can only be used to reduce UAL balances that existed prior to July 1, 2004. **This office does not have a concern about the ECA application for the extra employer contributions under Act 588 based on legislative intent.**

12. LEGISLATIVE CONCERN: Expansion of Military Service Credits

Concern	***Allowing subsidized military service credits results in substantial potential usage and costs to the employer.***
Act 1370 Experience	Act 1370 of the 1999 Regular Session allowed members of the Firefighters' Retirement System to receive subsidized service credits for active military duty between 1/1/1960 and 12/21/1975. To purchase the credits, a member only needed to pay an amount equivalent to the contributions that would have been paid at the time of duty. Previously, these members were required to meet certain military criteria to be eligible to purchase the credit and also paid the actuarial cost of the additional benefits. The Municipal Police Employees' Retirement System has similar provisions.
Actuarial Impact	Within the year following enactment of Act 1370 over 25% of the eligible universe at firefighters purchased an average of 2.5 years of service credit. We estimate that the actuarial liability equates to $38,600 per member purchase. The member was charged an average of $1,500 as their share of the purchase, so the net remaining cost to the employer is estimated to be $37,100 per member purchase. The military service subsidy has carried substantial costs to this system; increased UAL by an estimated $5 million as of June 30, 2000. Expanding similar military benefit subsidies to other wartime periods and to other systems could result in significant increases to their unfunded liabilities and contribution requirements.

13. LEGISLATIVE CONCERN: Enhancements to Public Plans are Actual or Potential Liabilities to the State.

Concern

Various bills have been passed with proponents implying that the benefit enhancements do not create a potential liability to the state. In most cases these are misleading or unfounded assertions encouraging the bills to pass.

General

The following statewide systems have reached or exceeded the limits of current existing state funded resources. Each allows normal retirement after twelve years of service upon reaching age fifty-five, except RVRS, which requires twenty years. As the costs of major benefit enhancements and considerable COLA liability emerge, coupled with investment losses, the contribution portion required from local funding have increased dramatically. This can cause a strain on local governmental units who may then turn to the state for assistance through additional appropriation and taxation of our citizens. This is already the case with the Firefighter's System having received special appropriations for funding.

Public entities that derive income and fees in their operations are enabled to do so by the government in the course of administering those services required and mandated under laws on behalf of the public interest. They are a public entity, not a private business, and do not hold unrestricted stockholder rights to such income for benefit enhancements or other compensation purposes.

ASSR

Assessors was granted an 11% increase to the future pension benefit accrual rate, from 3% to 3⅓%. Effective 7/1/2001 the accrual rate for past service was also increased to 3⅓%. To help pay for this the member's future contribution rate was increased from 7% to 8%. The employer pays for a significant portion of the substantial past service cost increase.

66% of the required contribution from public funds is state allocated ad valorem taxes and revenue sharing.

CCRS

Clerks of Court was granted an 11% increase to the future pension benefit accrual rate, from 3% to 3⅓%. The employer pays the total cost of this increase.

It was argued that the contribution is fully paid from fees charged to the public by their office. This is a public entity, not a private business.

38% of the required contribution from public funds is state allocated ad valorem taxes and revenue sharing.

FRS

The funding for Firefighters is paid from local appropriations and a state portion from the insurance premium tax fund (IPTF). Since FY 1999 total employer costs from public funds have increased to 36.4% from 19.8% of employee payroll ($16.6 million\FY 1999 up to $46.0 million\FY 2004). Local appropriations to fund the system went up to 21.0% from 9% of employee payroll.

The maximum available from the state's IPTF allocation is $16.1 million for FY 2004, 12.8% of employee payroll. Since funds available from IPTF are not adequate to complete the required funding for FY 2004, the employer is required to fund the shortage. Remaining IPTF amounts would have been deposited into the state's general funds had they not been required.

Since FY 2002 the state has appropriated extra amounts to assist the system with the contribution requirements. **Potential additional liabilities or financial impacts may exist for the state and its citizens pending potential court litigation.**

RVRS

Registrars of Voters was granted an 11% increase to the future pension benefit accrual rate, from 3% to 3⅓% effective July 1, 1999. The employer pays the total cost of this increase.

83.5% of the required contribution from public funds is paid by state allocated ad valorem taxes and revenue sharing.

SPRF

Sheriffs was granted an increase in the pension benefit accrual rate, to a uniform rate of 3⅓%, for all years of service under Act 496 of 1999 Regular Session. The prior accrual rates varied from 2.5% to 3.25% depending upon years of credited service. To help pay for this the member's future contribution rate was increased by 11.5%, up to 9.7% from 8.7%.

Since the benefit increase, which included a substantial past service cost, total employer costs from public funds have increased to 14.6% from 7.7% of employee payroll ($21.4 million\ FY 1999 up to $57.4 million\FY 2004). Local appropriations to fund the system went up to 9.25% from 5% of employee payroll.

The state's portion went up to 5.0% from 2.7% of employee payroll. This includes ad valorem taxes, revenue sharing, and the insurance premium tax fund (IPTF). For FY 2004, ad valorem taxes and revenue sharing will contribute $9.6 million and the IPTF will be required to provide the maximum $10.1 million. In FY 1999, prior to the benefit increase, the plan did not require any IPTF money. Since then: $2.0 million for FY 2000; $3.3 million for FY 2001; $9.1 million for FY 2002; and $8.7 million for FY 2003.

Since funds available from IPTF were not adequate to complete the required funding again for fiscal year 2004, the employer is required to fund the shortage. Remaining IPTF amounts would have been deposited into the state's general funds had they not been required for funding the benefit increases.

14. LEGISLATIVE CONCERN: Paying Full Retirement Benefits to Members While Actively Employed.

Concern	***Payment of benefits prior to actual retirement can add considerable cost to a member's pension liability, whether paid in the form of DROP benefits or rehired retiree benefits. It appears reasonable to consider whether public employees who are under age 60 should be paid what are essentially bonus checks while actively working. Proponents for DROP and full rehired retiree benefits have not differentiated between working bonuses for younger members and benefits at realistic retirement ages. As a result, the state and statewide plans are absorbing substantial additional liabilities through early payments to public workers that have little relationship to retirement. Partial or misleading arguments are encouraging these bills to pass without adequate considerations of cost or employer objectives.***
TRSL - Professors	Proponents urged and were granted immediate unreduced retirement benefits plus full salary for university professors who were DROP retirees and return to work. The provisions of the proposed bill were enacted under Act 18 of the Second Extraordinary 2000 Special Session. It was argued that the cost of this expensive benefit would be paid by the hiring public institutions. Once again, this is not a for profit private business, it's a public entity receiving state funds.
TRSL - All	Act 1173 of the 2001 Regular Session allows all TRSL members who retire, or are retired, and are then rehired to receive full salary and full benefit payments without return-to-work benefit reductions. Payment of full benefits in addition to full salary does not begin until 12 months from the date of retirement.
TRSL - LAE	Act 1046 of the 2001 Regular Session allows any non-bargaining employee who retires and is then rehired to receive full salary and full benefit payments immediately, without benefit reductions or waiting

period. This special legislation appears to have been for the benefit of one individual employee of the Louisiana Association of Educators (LAE).

LASERS - All

Act 455 of the 2001 Regular Session allowed all LASERS members who retire, or are retired, and are then rehired to receive full salary, full benefits, and the full additional accrual of benefits without return-to-work benefit reductions. Payment of full benefits in addition to full salary and additional accrual does not begin until 12 months from the date of retirement except for members who retired and were rehired prior to July 1, 2001. This resulted in substantial anti-selection against current retirement rate assumptions by certain members who immediately retired and returned to work with the significant benefits allowed under this legislation. Act 455 was effectively rescinded under Act 165 of the First Extraordinary 2002 Special Session, but it appears over 600 member applications may have been grandfathered.

SPRF

Act 781 of the 2004 Regular Session increases the earnings limitation to 50% of final average compensation from the current 33 1/3%, if reemployment occurs during the first 24 months of retirement; and a modest increase to 55% from the current 50% if reemployed part-time thereafter. This could extend the number of active employees who are currently eligible for retirement to consider taking an immediate retirement and then return to work on a part time basis, to earn full retirement benefits plus part-time salary. Consequently, this would directly impact system liabilities and employer contribution rates by changing the demographics of the active population group. Also, there is a potential impact on the system retirement rate structure, a critical component in measuring emerging system liabilities. The ultimate impact would be dependent on the re-employment policies and controls of each sheriff's office.

15. LEGISLATIVE CONCERN: Impact of AG Opinion on DROP Interest Credited by TRSL and LASERS.

Concern

An opinion from the State Attorney General appears to eliminate reductions to segregated DROP account balances for investment experience. This deviates from normal retirement plan administration and is contrary to the actuarial soundness of the plan's funding.

The system's funding assumptions includes an expectation for investment returns that will be earned by the trust's assets. This assumed rate is applied to determine the actuarial funding requirements of the system and applies to all potential benefit liability, including those of any segregated or sub-accounts under the plan. Since the plan is required by law to apply the actuarial return to DROP balances, this inherently becomes part of the actuarial funding return assumption. If in fact, the system is forced to guarantee the sub-accounts against investment losses, it renders the return assumption to be unreasonable and the funding actuarially unsound.

It is natural that there should be investment losses, just as there are gains, in achieving the average expected return rate. If DROP accounts are not to be credited with investment losses it would seem appropriate to credit and thus invest such assets in separate investments expected to avoid negative returns, such as treasury bills. This would preserve the actuarial soundness of the system's funding and maintain reasonableness of the actuarial return assumption.

Based on the actuarial valuations for TRSL and LASERS as of June 30 the estimated combined cost of this opinion for fiscal year 2003 is $57.8 million. It was $60.6 million for fiscal year 2002 and $3.1 million for fiscal year 2001. The cumulative cost impact for the three years totals $121.6 million. This is illustrated in the following tables:

FY 2003 COST IMPACT OF DROP AG INVESTMENT OPINION

On June 30, 2003 DROP Balances

System	DROP Account Balance	DROP Account Yield	Cost Impact
	(a)	(b)	(a) x (b)
LASERS	$374,422,462	-4.13%	($15,463,648)
TRSL	$700,335,195	-6.05%	($42,370,279)
Combined	**$1,074,757,657**	**-5.38%**	**($57,833,927)**

FY 2002 COST IMPACT OF DROP AG INVESTMENT OPINION

On June 30, 2002 DROP Balances

System	DROP Account Balance	DROP Account Yield	Cost Impact
	(a)	(b)	(a) x (b)
LASERS	$367,540,856	-4.90%	($18,009,502)
TRSL	$672,385,722	-6.34%	($42,629,255)
Combined	$1,039,926,578	-5.83%	($60,638,757)

FY 2001 COST IMPACT OF DROP AG INVESTMENT OPINION

On June 30, 2001 DROP Balances

System	DROP Account Balance	DROP Account Yield	Cost Impact
	(a)	(b)	(a) x (b)
LASERS	$344,794,272	-0.13%	($448,233)
TRSL	$593,414,957	-0.45%	($2,670,367)
Combined	$938,209,229	-0.33%	($3,118,600)

16. LEGISLATIVE CONCERN: Adverse Selection

Concern

Recent legislation has indicated a trend toward benefit choices that leave the employer vulnerable to unknown costs resulting from possible anti-selection by the participant.

Adverse selection, or anti-selection, can happen when a member is motivated directly or indirectly to take advantage of an elective option for their own benefit, for which the underlying cost expectations of the risk were determined based on collective experience of the group as a whole.

ORP Recision – LASERS

Act 923 of the 2004 Regular Session

Under this legislation, employees who made an irrevocable election to participate in ORP prior to July 31, 2002 can rescind their election, forfeit accumulated amounts for that period, and presumably pay any actuarial cost differences to receive service credit in the defined benefit plan for the rescission period. The member may also re-establish prior credit under the defined benefit plan by returning all contributions that had been transferred into ORP with interest. The member will have the option of looking back to see if significant benefit improvement can be gained by opting out of ORP. If the defined benefit plan would provide the better benefit they could rescind their ORP account to receive the higher future benefit value.

ANTI-SELECTION: Actuarial liabilities could increase for exposure to anti-selection against the plan benefit structure and actuarial funding assumptions. An example is anti-selection against the mortality assumptions and the plan's survivorship provisions. Under the proposed amendment, a member could elect out of ORP in anticipation of death if the defined benefit plan provides a greater benefit.

Airtime Purchase – LASERS

Act 340 of the 2004 Regular Session

Allowing credited service purchases for up to five years of unrelated employment could impose additional unexpected costs from possible anti-selection. It is assumed that any member willing to purchase additional service is typically expecting to gain a financial advantage in doing so. There is no assurance that this anti-selection can be adequately charged to the participant. The assumption creating an actuarial basis for the purchase cost must be realized by the system to ultimately be equivalent to the liability that emerges. This means that the system is exposed to any actuarial losses that could occur if the assumptions are not realized.

Back DROP – SPRF

Act 854 of the 2004 Regular Session

In addition to paying a lump sum equal to the maximum monthly retirement benefit for each month the member selects as the Back-DROP period, this legislation also credits a member's account, upon separation of service, with all contributions they had been required to pay as an active employee during that period.

Back-DROP allows a retiring member of SPRF (Sheriffs' Pension and Relief Fund) to elect an alternative monthly benefit plus lump sum at actual retirement. The alternative benefit equals the accrued monthly benefit that existed at the beginning of the three year Back-DROP period. The lump sum is an amount equal to the alternative benefit for each month of the selected Back-DROP period. **The Back-DROP value is not the same as a reduced option payment, for example IBO, since it is not determined as an actuarial equivalent of the regular retirement benefit value.**

A major component that allowed Back-DROP to be a feasible benefit alternative to DROP was the retention of required employee contributions by the system. This is no longer true since Act 854 of the 2004 Regular Session will now refund the employee contributions that were paid during the look back period, in addition to the lump sum Back-DROP account and the alternative monthly retirement benefit payable to the member for life. If the employee chooses not to select the Back-DROP alternative, then they receive their regular promised retirement benefit.

ANTI-SELECTION: Generally, the plan loses when a member is allowed to elect between options that are not actuarially equivalent. Back-DROP allows a member to select to participate retroactively in DROP at their actual retirement. This means the member can look back and determine whether they would gain from salary increases or legislated benefit changes by entering the program retroactively. DROP members did not have this opportunity although they were given the equivalent account benefits prior to termination retirement. Retaining the employee contributions helped to neutralize the adverse exposure and therefore costs to the system. This will no longer be true under Act 854.

DROP Recision – SPRF

Act 866 of the 2004 Regular Session

This legislation allows members who are in DROP, or Post-DROP members who have not severed employment to rescind participation in DROP and subsequently elect either regular retirement status or to elect Back-DROP.

ANTI-SELECTION: The member will have the option of looking back to see if significant benefit improvement can be gained by opting out of DROP. If plan benefits are increased by legislation or a member had significant pay increases they can rescind their DROP account to receive the higher future benefit value. Allowing members to change options retrospectively can significantly impact the actuarial funding assumptions underlying the plan’s benefit structure.

Anti-selection is also possible against the mortality assumptions and the plan's survivorship provisions. When a member enters the DROP program they must select an annuity payout option, similar to that of a retiree. Under the proposed amendment, a member could elect out of DROP in anticipation of death whenever the non-DROP active death benefit provides a greater amount then the annuity option they selected to participate in DROP.