

# ***PERSONALLY SPEAKING***

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## **LOUISIANA TEACHER RETIREMENT SYSTEM: TRAIN WRECK AHEAD?**

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**Total net investment income of the Teacher Retirement System of Louisiana, according to System's annual report for FY 2013, was \$1.751 billion, pushing its net asset holdings to \$15.5 billion. In the preceding year TRSL reported a loss of \$58.5 million. In both years, however, TRSL paid its investment advisors roughly the same amount of money.**

**In FY 2013 *advisor fees* amounted to \$32.5 million. In the previous year, those fees total \$30.5 million. In addition, TRSL paid *performance consultant fees* of \$760,000 in 2013 compared to \$790,000 in 2012. Better to be an advisor to TRSL than a consultant.**

**Total investment activities expenses amounted to \$70.3 million which in addition to *performance consultant fees* and *adviser fees* included \$32.4 million in alternative investment expenses. Alternative investments include real estate, both foreign and domestic private equity, venture capital, and private market debt. Not bad being an intermediary who helps TRSL execute alternative-investment trades.**

**In terms of earnings on investments, the big winner was domestic preferred and common stocks where gains of \$467.3 million were reported for 2013. The big loser was domestic bonds where losses of \$91.0 million were sustained. It's helpful to have the QE3 strategy of the Federal Reserve, which deliberately suppresses interest rates and bond prices and raises stock prices, to produce this kind of net return especially when TRSL does not have to pay the Federal Reserve. The question is When will the Fed cut loose from this strategy?**

**The TRSL annual report emphasizes its three-year annualized return of 13.1 percent, but does not call attention to its fifteen-year return of 6.2 percent.**

**While net asset holdings increased handsomely in FY2013, so too did its unfunded actuarial accrued liability, from \$11 billion to \$11.3 billion. Over the last ten years, TRSL unfunded liability has jumped by 70 percent. At the same time, the TRSL investment portfolio has grown by 30 percent. These numbers compute for the likes of J.P Morgan and Prudential, two of the 23 investment firms on the TRSL payroll. They do not compute for TRSL members and Louisiana taxpayers if the System crashes.**

In fairness, investment advisors are obligated to pay rebates on expenses of alternative funds and investment fees. Alternative investments totaled \$3.9 billion in the 2013 TRSL portfolio. In the last five years, a total of \$498,982 was rebated.

Over the years TRSL has invested more than \$372 million in Louisiana businesses, including Cheniere Energy Partners that is engaged in liquefying natural gas, Esperance Pharmaceuticals that conducts research in cancer treatment, Crestwood Midstream Partners involved in shale production, and Brand Energy and Infrastructure Services in petrochemicals. It is not clear who decides which Louisiana companies are to receive TRSL investment funds.

Here's the problem. Advisers in general are paid whether their decisions produce gains for TRSL or not. They charge some fixed percentage of the portfolio under their management, in large measure whether there are gains or losses. For every \$1 paid as *performance consultant fees* in 2013, a total of \$43 was paid as *advisor fees*. Nowhere in the 121-page report is there any detailed information as to how payments to investment advisers and consultants are calculated.

It is the Louisiana taxpayer who is on the hook for the unfunded liability should the System fail. Of course, TRSL could change advisers and consultants but it's still the taxpayer who is on the hook. Does this sound a lot like "heads I win, tails you lose?"

What should trouble TRSL members and Louisiana taxpayers is that in 2013 TRSL unfunded liability increased by \$392.8 million at the very same time that net income on investments grew by 1.751 billion or 13.9 percent by TRSL. What will happen to the solvency of the System when investment income does not achieve such high returns? The experience of the Great Recession indicates that with the 4.8 percent annualized return of the 2008-2013 period unfunded liability in the future very likely will increase dramatically as it did during the Great Recession when it climbed from \$6.6 billion to \$11.3 billion.

There's a train wreck ahead for TRSL unless earnings continue at double-digit rates, member and employer contributions are raised, or limits are imposed on benefits. Currently there are more than 2000 service retirees receiving \$4,500 or more in monthly benefits. Their numbers will increase as universities engage in high-stakes faculty recruitment that inflates salaries and in the end pushes TRSL retirement benefit expenses even higher. A university president who earns \$350,000 annually will after 40-years service draw \$7 million in TRSL retirement benefits if the president survives 20 years.

No time to fall asleep on the train tracks.

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