STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Consolidation of the Administration of Louisiana's State Retirement Systems

December 1993

Performance Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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State of Louisiana

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December 28, 1993

Honorable Samuel B. Nunez, Jr.,
President of the Senate
Honorable John A. Alario, Jr.,
Speaker of the House of Representatives
and
Members of the Legislative Audit Advisory Council

Dear Legislators:

This is our report of the performance audit of the Consolidation of the Administration of Louisiana's State Retirement Systems. The four state retirement systems are Louisiana School Employees' Retirement System, Louisiana State Employees' Retirement System, State Police Pension and Retirement System, and Teachers' Retirement System of Louisiana. This audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards.

The report presents our findings, conclusions, and recommendations as well as the responses of the four state retirement systems to the audit.

Sincerely,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/jl

[LEGLTR]

Office of Legislative Auditor

Executive Summary

Performance Audit
Consolidation of the Administration of Louisiana's State Retirement Systems

Audit Objectives

House Concurrent Resolution No. 67 of the 1993 Regular Legislative Session directed the Legislative Auditor to study the economic feasibility of consolidating the administration of Louisiana's four state retirement systems. The audit objectives were:

- **Identify the areas of administration and investment management among the four state retirement systems that can be consolidated.**
- **Estimate the amount of savings which may result from consolidating the administration and investment management of the four state retirement systems.**

Policymaking

The four retirement systems have a constitutional warrant on the state, which ultimately makes the state responsible for meeting the financial obligations of the systems. Yet, the state has little oversight of these systems, each of which is independently governed by its own board of trustees.

The state's involvement with these systems is through representation on the boards of trustees by certain state officials as ex-officio members. These boards of trustees are responsible for making administrative and investment policies.

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Currently, neither state law nor board policies require state retirement system board members to have any investment knowledge or experience.

The state could improve its oversight of the four state retirement systems and reduce board expenses by *consolidating the boards into one board. The new* consolidated board could represent membership of the current four systems and state officials, as well as have at least two board members with significant investment experience. (Pages 9-18)

Administration

Although the four state retirement systems have the same mission and provide basically the same types of services to their members, they do not coordinate their daily administrative functions with each other. Three of these four retirement systems have similar organizational structures, and even share space in the same office building.

The combined administrative expenses (not including investment expenses) for the four systems in fiscal year 1992 were $8.4 million, or $35 per member. In a survey of consolidated retirement systems with comparable memberships in six other states, we found the average expenses were $29 per member. Administration costs in Louisiana were 21 percent higher than for the consolidated retirement systems in these six states.

Consolidating the administrative functions of the four retirement systems can reduce management and staff as well as operating expenses. An estimated $1.5 to $1.8 million in salaries and related benefits can be saved by consolidating the staff of the four systems. Initially, there may be some costs involved for termination pay, new data processing equipment, and staff training. (Pages 19-28)

Investment Management

Each of the four state retirement systems independently contracts with investment custodians, consultants, and managers to provide investment services. All investments for these four systems are currently managed externally. However, nearly half of the consolidated retirement systems in other states surveyed managed some portions of their investments in-house with lower investment expenses.

The combined investment expenses for Louisiana's four state retirement systems for fiscal year 1992 were $12.6 million, or $142,520 per $100 million in system assets. These expenses were 82 percent higher than the average investment expenses for the five membership-comparable consolidated retirement systems in other states that provided investment expense information.

It is difficult to estimate the overall savings that could result from pooling the assets of the four retirement systems for investment purposes, because actual savings will depend on the consolidated system's investment policies. Based on the results of our survey of investment professionals, some savings could be achieved.
(Pages 29-38)

Conclusions

- Consolidation of the boards of trustees and administration of the four state retirement systems would allow for more oversight of management and investment policies by the state.
- Consolidation of administrative functions of the four state retirement systems could reduce management and staff, as well as administrative expenses.
- Consolidation of investment management of the four state retirement systems could reduce investment related expenses.

Systems' Responses

All four retirement systems' responses are included in Appendix D of this report.

Chapter One: Introduction

Report Conclusions

Each of the four state retirement systems is independently governed by its board of trustees which is responsible for making administrative and investment policies. The state's involvement in policy decisions of these systems is through representation on the boards of trustees by certain state officials as ex-officio members.

If these retirement systems fail to meet their financial obligations, the state is ultimately responsible for meeting those financial obligations. Yet, the state currently has little oversight of these systems. At present, neither state law nor any board's policies require state retirement system board members to have any investment knowledge or experience.

By consolidating the boards and the administration of the four state retirement systems, Louisiana can improve its oversight of the management and investment policies of these systems. The new consolidated board could represent the memberships of the current four systems and state officials. In addition, at least two of the board members should have investment knowledge or experience.

Although the four state retirement systems have the same mission to provide basically the same types of services to their memberships, they do not coordinate their daily administrative functions with each other. The combined administrative expenses (excluding investment expenses) for the four systems in fiscal year 1992 were $8.4 million, or $35 per member.

A consolidated administration of the four state retirement systems could reduce management and staff as well as operating expenses. However, there would be some initial costs of consolidation that would have to be considered. These initial costs may include termination pay, new data processing equipment, and staff training.

Each of the four state retirement systems independently contracts with external investment professionals for investment services. The combined investment expenses for the four systems in fiscal year 1992 were $12.6 million, or $142,520 per $100 million in system assets.

We could not estimate overall savings that would result from pooling the assets of the four state retirement systems for investment purposes, because actual savings will depend on the consolidated system's investment policies. However, the report identifies specific areas of potential savings.

Audit Initiation and Objectives

House Concurrent Resolution No. 67 of the 1993 Regular Legislative Session directed the Office of Legislative Auditor to study the economic feasibility of consolidating the administration of Louisiana's four state retirement systems. These retirement systems are:

- Louisiana School Employees' Retirement System (referred to in this report as the School Employees' Retirement System),
- Louisiana State Employees' Retirement System (referred to in this report as the State Employees' Retirement System),
- State Police Pension and Retirement System (referred to in this report as the State Police Retirement System), and
- Teachers' Retirement System of Louisiana (referred to in this report as the Teachers' Retirement System).

The resolution provided general guidelines regarding the scope of the study and stated the following legislative concerns as the basis for requesting the study:

- duplication of management because each system has a separate board of trustees
- duplication of staff
- duplication of consultants and professional services
- increased costs due to duplicative investment transactions

- lost economies of scale because of maintaining separate funds for each system

Based on our understanding of the general guidelines and legislative concerns, we focused on the following two issues in this audit:

- **Identify the areas of administration and investment management among the four state retirement systems that can be consolidated.**
- **Estimate the amount of savings which may result from consolidating the administration and investment management of the four state retirement systems.**

Background

The four state retirement systems have a common mission of providing retirement benefits to their eligible members. Each system is governed by a board of trustees with authority to transact business of the systems, to invest funds, and to hold all cash and securities in trust.

Teachers' Retirement System of Louisiana. This system, established in 1936 by legislative act, serves public school teachers and school lunchroom employees. According to the system actuary's June 30, 1993, report, the Teachers' Retirement System, the largest public retirement system in Louisiana, provides services and benefits to 121,879 active and retired members. A 16-member board of trustees governs this retirement system.

Three other retirement systems have been merged into the Teachers' Retirement System over the years: the Orleans Parish Teachers' Retirement System in 1971; the Louisiana State University Retirement System in 1979; and the Louisiana School Lunch Employees' Retirement System in 1983.

Louisiana State Employees' Retirement System (LASERS). This system was established by an act of the Louisiana Legislature in 1946. The system actuary's June 30, 1993, report shows that the system provides services and benefits to 94,871 active and retired members. The membership consists of state employees, legislators, wildlife agents, corrections officers, judges, and court officials. The State Employees' Retirement System is governed by an 11-member board of trustees.

Louisiana School Employees' Retirement System. The Louisiana Legislature established this system in 1946. The system actuary's June 30, 1993, report shows that the system serves 22,356 active and retired members. Its membership consists of support staff at the state's public schools, which include school bus drivers, janitors, custodians, maintenance workers, and school bus aides and attendants. The School Employees' Retirement System is governed by a 10-member board of trustees.

State Police Pension and Retirement System. This retirement system, which serves only commissioned state police officers, was established by legislative act in 1938. The system actuary's June 30, 1993, report shows that the system serves 1,638 active and retired members. The system is governed by a 9-member board of trustees.

Funding. Employee and employer contributions and earnings from investments fund the four state retirement systems. With the exception of the School Employees' Retirement System, the retirement systems have not achieved 100 percent funding of their actuarial accrued liabilities as shown in Exhibit 1-1 below based on actuarial value of assets.

Exhibit 1-1

Unfunded Accrued Liability for the State Retirement Systems as of June 30, 1993

Retirement System	Unfunded Accrued Liability	Percent Funded
Teachers'	$4,392,904,706	53.90%
State Employees'	$2,078,682,672	59.43%
School Employees'	($50,510,915)	106.23%
State Police	$183,417,969	24.10%

Source: Prepared by Legislative Auditor's staff from the June 30, 1993, reports of Hall Actuarial Associates, actuary to the retirement systems.

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. These standards require that the audit is conducted by independent and qualified staff with due professional care. In addition, the audit team must follow standards dealing with materiality and significance, relying on the work of others, internal quality controls, and report presentation. The standards also require that the auditee is given an opportunity to respond to the audit findings and conclusions.

The audit fieldwork began in September 1993 and was completed in mid-November 1993. We used fiscal year 1992 information for comparative analysis because that was the most complete and reliable information available. In some cases, when available and where applicable, we used information relative to other time periods as noted throughout the report.

To address the audit issues, we reviewed recent in-state and out-of-state reports, journals, and newspaper articles relating to management of retirement systems. We also reviewed relevant state laws governing Louisiana's four state retirement systems.

We interviewed officials of each state retirement system, as well as officials from the State Treasurer's Office and the Public Affairs Research Council. During the audit, we also consulted with the Legislative Actuary when necessary.

Our staff reviewed and analyzed financial and other documents pertaining to the administration of the four state retirement systems. This included annual reports, financial statements, actuarial reports, policies and procedures, contracts, requests-for-proposals, and minutes of board meetings.

Survey of Outside Investment Management and System Actuary. To obtain information relating to investment management and costs, we surveyed all investment managers, custodians, and consultants serving Louisiana's four state retirement systems. This included:

- 58 investment managers (47, or 81 percent, responded),
- 8 investment custodians (all responded), and
- 4 investment consultants (all responded).

To obtain information about the potential savings in actuarial expenses, we also surveyed the actuary who serves all four state retirement systems. The actuary responded separately for each of the four state retirement systems.

We analyzed the survey information and compared the information with investment management of Louisiana's four state retirement systems as a whole. When necessary, we made follow-up calls to verify or obtain additional information. Appendix A includes a list of these investment professionals and the actuary, as well as copies of blank surveys which we sent to them.

Survey of Consolidated Public Employee Retirement Systems in Other States. We surveyed 32 states to learn about consolidated administration of state retirement systems in other states. The survey included questions about boards of trustees, system administration, investment management, and membership. We received usable responses from the 18 states listed below:

Arizona	Maine	South Carolina
Colorado	Maryland	South Dakota
Georgia	Mississippi	Tennessee
Idaho	Nevada	Washington
Iowa	New Hampshire	West Virginia
Kansas	Rhode Island	Wisconsin

We analyzed the information from the 18 states and compared the information with Louisiana's four state retirement systems as a whole. When necessary, we made follow-up calls to verify or obtain additional information. Appendix B discusses details about the selection of these states, includes a blank copy of the survey which we sent to them, and provides a summary of our results.

We looked at the membership of each of these systems and found six states which served approximately the same total of active and retired members as Louisiana's four state retirement systems combined. In fiscal year 1992, Louisiana's total membership of the four systems was 238,750. During the same period, the total membership for the six states ranged from 200,493 to 308,649. These states are Iowa, Maryland, South Carolina, Tennessee, Washington, and Wisconsin. These states are used for a more in-depth analysis and comparison throughout the report.

To make information about the four state retirement systems comparable with the other states' consolidated retirement systems, we used the following terms as listed below:

- total membership--total number of active and retired members of the system
- total assets--total assets of the system as reported in the financial statement
- total administrative expenses--total administrative expenses less investment-related expenses of the system

Audit Limitations. We did not study the retirement benefits offered by the four state retirement systems in this audit, because it was clear from the resolution that the legislative concerns were in the area of administration, and not in consolidating the benefit structures.

In our comparison of Louisiana's four state retirement systems with consolidated retirement systems in other states, we did not compare how well other states' retirement systems are doing with respect to rate-of-return on their investments. We found that it was difficult to compare the rate-of-return information, because the way this information is calculated and reported varied among the retirement systems we studied.

Furthermore, because of time constraints, the audit did not address the following issues:

- *implementation schedule for identified areas of* consolidation
- quality of services provided to members
- whether the systems' administrative expenses are justifiable
- any misuse of funds or fraud
- audit of electronic data processing controls, because we used very little computer-generated information for our analysis
- administration of the nine statewide (local) retirement systems

Because of the audit limitations mentioned above, the legislature may wish to further study certain specific issues relating to the administration and investment management of the four state retirement systems. The issues for further study may include retirement benefit plans, membership services, and investment policies and practices.

Report Organization

The remainder of this report is organized as follows:

- **Chapter Two: Policymaking** discusses the composition and qualifications of the board of trustees for each of the four state retirement systems and gives a comparison with other states' consolidated retirement systems.

- **Chapter Three: Administration** addresses in detail administrative structure and functions of the four state retirement systems and provides a comparison with other states' consolidated retirement systems.
- **Chapter Four: Investment Management** explains the management of investments for the four state retirement systems and compares the management with other states' consolidated retirement systems.
- **Appendix A** lists all investment professionals and the systems' actuary for the four systems. The appendix also includes copies of blank surveys.
- **Appendix B** provides a list of other states that we surveyed, a copy of the blank survey, and the survey results. The appendix also discusses in detail the methodology we used to select these states.
- **Appendix C** illustrates the organization charts for the four state retirement systems.
- **Appendix D** contains agency responses to this report.

Chapter Two: Policymaking

Chapter Conclusions

Each of the four state retirement systems is independently governed by its own board of trustees which is responsible for making administrative and investment policies. The state's involvement in policy decisions of these systems is through representation on the boards of trustees by certain state officials as ex-officio members. If these retirement systems fail to meet their financial obligations, the state is ultimately responsible for meeting those financial obligations. Yet, the state currently has little oversight of these systems.

At present, neither state law nor any board policy requires state retirement system board members to have any investment knowledge or experience. One-half of the consolidated retirement systems in other states we surveyed have requirements regarding investment knowledge or experience for the officials responsible for making investment policies.

Louisiana could improve its oversight of the four state retirement systems as well as reduce board expenses by consolidating the boards into one 11-member board. The new consolidated board could represent membership of the current four systems and state officials. In addition, at least two of the board members should have investment knowledge or experience.

Boards of Trustees Make Policy Decisions Regarding Administration and Investments

State laws provide for the policymaking authority for each of the boards of the four state retirement systems. These laws generally empower the boards to:

- appoint the director, assistant directors, and other officials of the retirement system;

- set forth rules for operation of the retirement system;
- invest and reinvest available funds; and
- engage an actuary and other professional consultants, as needed

State laws also provide for the joint administration of the retirement systems, but no action can be taken that would impair the integrity of the board of trustees of each of the systems or the funds of each system. This provision for the joint administration is between the State Police and the State Employees' Retirement Systems, as well as between the Teachers' and School Employees' Retirement Systems.

Each system must comply with the investment rules and regulations established by its individual board of trustees in accordance with the provisions of LSA-R.S. 11:263(C), the so called "prudent-man rule." The prudent-man rule requires that:

> ". . . each fiduciary of a retirement system and each board of trustees acting collectively on behalf of each system to act with care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

Each State Retirement System Is Governed by a Separate Board of Trustees

The size and composition of the board of trustees of each of the four state retirement systems varies among the systems. For example, the State Police Retirement System has only 9 members on its board while the Teachers' Retirement System's board has 16 members. All four boards have ex-officio members as well as members who are elected from their active and retired memberships. Also, the School Employees' Retirement System has an appointed retiree board member. Exhibit 2-1 on the next page details the composition of the four state retirement system boards as required by state law.

Exhibit 2-1

Composition of the Board of Trustees for State Retirement Systems

Board Members	Teachers'	State Employees'	School Employees'	State Police
Ex-officio members	4	3	5	6
Elected from active membership	10	6	4	1
Elected from retired membership	2	2	0	1
Appointed members	0	0	1	0
Elected members at-large	0	0	0	1
Total number of members	**16**	**11**	**10**	**9**
Statutory Citations	LSA-R.S. 11:822	LSA-R.S. 11:511	LSA-R.S. 11:1162	LSA-R.S. 11:1302

Source: Prepared by Legislative Auditor's staff using Revised Statutes cited.

Neither state law nor any board policy requires board members to have any investment knowledge or experience. Though state laws provide for the composition of the boards of the state retirement systems, they do not require any minimum qualifications for board members. The only stipulation is that elected board members must be either active or retired members of the system which they serve.

In 7 of the 18 states surveyed, we found consolidated retirement systems have requirements regarding investment knowledge or experience for the officials responsible for making investment policies. The following is a list of requirements in those states:

- Arizona--a separate investment advisory council along with a board of trustees
- Colorado--board members attend basic and advance training in the investment field
- Georgia--at least one board member is required to have 10 years of experience
- Kansas--board members are required to have five years of investment experience
- Maine--two board members are required to be actuaries
- Washington--separate investment board

- Wisconsin--separate investment board requiring 10 years of investment experience

In addition to these seven states, in South Carolina and Tennessee, the state treasurers' offices handle investments for their consolidated state retirement systems.

All Systems Share Common Ex-Officio Members

The four state retirement systems share common ex-officio members representing the State Treasurer, the Senate, and the House of Representatives (LSA-R.S. 11:181). All four systems have the State Treasurer and the House Retirement Committee Chairman on their boards of trustees. However, the ex-officio member representing the Senate is not common to all four boards. Specifically, three of the four retirement systems have the Senate Finance Committee Chairman as an ex-officio member, but the Teachers' Retirement System has the Senate Retirement Committee Chairman as its Senate ex-officio member (LSA-R.S. 11:822).

Board meeting attendance of the common ex-officio members varied between systems. We reviewed minutes of regular board meetings to evaluate the involvement of common ex-officio board members. Exhibit 2-2 below shows combined average attendance at regular board meetings for the common ex-officio members or their representatives. Overall, the common ex-officio members attended few board meetings.

Exhibit 2-2

Combined Average Attendance at Regular Board Meetings of the Common Ex-Officio Members for Fiscal Years 1991-1993

Retirement Systems	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993
State Employees'	25.0%	27.8%	36.1%
Teachers'	72.2%	44.4%	27.8%
School Employees'	45.8%	50.0%	44.4%
State Police	52.4%	42.9%	44.4%

Source: Prepared by Legislative Auditor's staff from minutes of the regular board meetings of the four systems for fiscal years 1991-1993.

In addition to the common ex-officio board members, three of the four systems have other ex-officio members who are unique to each board. Exhibit 2-3 below lists all current ex-officio members serving on the board of trustees of the four state retirement systems.

Exhibit 2-3

Ex-Officio Board Members of Each State Retirement System

Ex-officio Members	Teachers'	State Employees'	School Employees'	State Police
State Treasurer	X	X	X	X
House Retirement Committee Chairman	X	X	X	X
Senate Finance Committee Chairman		X	X	X
Senate Retirement Committee Chairman	X			
Secretary of State			X	
President of Louisiana State Troopers' Association				X
Superintendent of the Office of State Police				X
Commissioner of Administration				X
President of Louisiana School Bus Operators			X	
State Superintendent of Education	X			
Statutory Citations	LSA-R.S. 11:822	LSA-R.S. 11:511	LSA-R.S. 11:1162	LSA-R.S. 11:1302

Source: Prepared by Legislative Auditor's staff using Revised Statutes cited.

Consolidating the boards would result in fewer meetings and could increase ex-officio members' attendance. If a common ex-officio member attended all of the regular meetings of each board, the ex-officio member would attend approximately 38 meetings per year. State law requires the boards of the State Employees' and the Teachers' Retirement Systems to meet monthly.

Policies of the other two retirement systems have set the frequency of their board meetings. The School Employees' board meets quarterly, but the meetings are two days long (four two-day meetings per year), and the State Police board usually meets every six to eight weeks (the board held six meetings during fiscal year 1993).

State Treasurer Has Only a Limited Role in the Administration of the Four State Retirement Systems

The retirement systems were placed under the Department of Treasury during a reorganization of state government in 1977. The State Treasurer has a role in selecting consultants for the systems, serves as an ex-officio member on the four boards of trustees, and signs all professional services contracts for the systems. Though an ex-officio member on each of the boards, the State Treasurer has limited authority over the retirement systems' operations and policy making. The four retirement systems function as autonomous bodies with little government oversight.

The four retirement systems have a constitutional warrant on the treasury. Louisiana State Constitution of 1974, Article 10, Section 29(A), which provides for public school employees, and (B), which provides for other officials and state employees say:

> Section 29(A): ". . . Membership in such a retirement system shall be a contractual relationship between employee and employer, and the state shall guarantee benefits payable to a member or retiree or to his lawful beneficiary upon his death."
>
> Section 29(B): ". . . Membership in any retirement system of the state or of a political subdivision there of shall be a contractual relationship between employee and employer, and the state shall guarantee benefits payable to a member of a state retirement system or retiree or to his lawful beneficiary upon his death."

Because of the potential impact on the state's fiscal condition, the State Treasurer's Office has supported retirement system reform. Currently, the investment of money is dependent on the boards of trustees and many of these board members may not have a complete understanding of investment management. In addition, officials of the State Treasurer's Office support better investment procedures and hiring of outside investment managers.

In 1988, the Treasurer's Advisory Committee, formed to achieve an actuarially funded public employee retirement plan, submitted a report to the State Treasurer. This committee reported that a pooled investment program that combines management of investments, together with changes in investment policies, could reduce costs and improve performance.

The Four Boards of Trustees Could Be Consolidated

Exhibit 2-4 on the following page compares the composition and qualifications of retirement system boards in six states. These six systems are fully consolidated and their membership size is close to that of Louisiana.

If the boards of trustees of the retirement systems are consolidated, legislation forming a new board would be required. As shown in Exhibit 2-4, most of the six membership-comparable states boards of trustees contain some representatives of the active and retired members, as well as various ex-officio members. For information on the boards of the remaining 12 states, see Appendix B.

Fifteen of the 18 states, or 83 percent, we surveyed have at least one gubernatorial appointee on the board of trustees. Seven of the 18 states, or about 39 percent, we surveyed have boards of trustees with no membership representation. The average board size was 11 members for the 18 states surveyed as well as for the 6 states that were comparable to Louisiana. Therefore, we suggest an alternative that the new board could consist of 11 members and be composed of the following:

- 2-4 representatives of the new consolidated retirement system (1-2 active and 1-2 retired)
- At least 2 gubernatorial appointees with significant investment knowledge and experience, who are confirmed by the legislature
- State Treasurer

Exhibit 2-4

Board Composition of Six Consolidated State Retirement Systems With Comparable Membership

Name of Retirement System	Number of Board Members	Board Members (Appointed, Elected, or Ex-Officio)	Investment Knowledge Required
Iowa Public Employees' Retirement System	9	8 appointed (2 active members, 1 retired member, and 3 Iowa business people by Governor; 1 by Senate; and 1 by House) 1 ex-officio (State Treasurer)	No
Maryland State Retirement and Pension Systems	15	5 appointed (3 by Governor and 2 by committee of Governor, Treasurer and Comptroller) 4 elected (2 by active members and 2 by retirees) 6 ex-officio members	No
South Carolina Retirement Systems	5	5 ex-officio members (Governor, State Treasurer, Comptroller General, Senate Finance Committee Chair, and House Ways and Means Committee Chair)	No. Investments are handled by State Treasurer.
Tennessee Retirement System	18	4 appointed (1 by Governor, 1 by county officials association, 1 by county services association, and 1 by Tennessee Municipal League) 5 elected by active members 9 ex-officio members	No. Investments are handled by State Treasurer.
Washington State Department of Retirement Systems and Investment Board	9	6 appointed (3 by Governor, 1 by the House, 1 by the Senate, and 1 by the Superintendent of Schools) 3 ex-officio members Also, a separate 5-member advisory board	Yes. Members of the advisory board have investment experience.
Wisconsin Retirement System	12	9 appointed (1 by Governor, 4 by Wisconsin Retirement Board, and 4 by Teachers' Retirement Board) 1 elected by retirees 2 ex-officio members	Yes. A separate investment board; requires 10 years of experience.

Note: Wisconsin has also two advisory boards: one is comprised of teachers and the other one is comprised of state workers.

Source: Prepared by Legislative Auditor's staff from survey responses received from these states.

- The remaining 4-6 could be selected from the following:
  - President of the Senate, or a designee
  - Speaker of the House of Representatives, or a designee
  - *Chair of the Senate Retirement Committee*
  - Chair of the House Retirement Committee
  - Chair of the Senate Finance Committee
  - Chair of the House Ways and Means
  - Commissioner of Division of Administration

The consolidation of boards of trustees could reduce per diem expenses by more than 70 percent. For fiscal year 1992, three of the four state retirement systems spent a total of $22,200 in per diem payments to board members. The State Police Retirement System did not pay its board members any per diem, though they were entitled to per diem payments under state law. According to the Executive Director of the State Police Retirement System, elected board members serve without compensation, while ex-officio members are to be reimbursed by the entities they represent.

The other three retirement systems paid per diems to their elected board members, while the ex-officio members were entitled to be paid by the organizations they represented. Exhibit 2-5 breaks this total down by state retirement system.

Exhibit 2-5

Per Diems Paid by the State Retirement Systems for Fiscal Year 1992

Retirement System	Total Per Diems Paid
Teachers'	$10,425
State Employees'	6,525
School Employees'	5,250
State Police	0
Total	**$22,200**

Source: Prepared by Legislative Auditor's staff from each retirement system's fiscal year 1992 financial statements.

The board members of all four systems are entitled to receive a per diem of $75 for attending each board meeting as required by state law, as well as reimbursement for all travel expenses. Therefore, approximately $34,350 annually could be spent on per diems alone if all of the current 46 board members attended all of the minimum number of required meetings of their respective boards. A new 11-member board which met once per month at $75 per meeting would decrease this expense by $24,450 to $9,900.

Chapter Three: Administration

Chapter Conclusions

Although the four state retirement systems have the same mission and provide basically the same types of services to their membership, they do not coordinate their daily administrative functions with each other. Also, three of these four retirement systems have similar organizational structures.

The combined administrative expenses (not including investment expenses) for the four systems in fiscal year 1992 were $8.4 million, or $35 per member. These expenses were 21 percent higher than the average expenses of $29 per member for the six membership-comparable consolidated retirement systems in other states we surveyed.

Consolidating the administration of the four state retirement systems can reduce management and staff sizes as well as administrative expenses. An estimated $1.5 to $1.8 million in salaries and related benefits can be saved by consolidating the staff of the four systems. However, there will be some initial costs of consolidation that will have to be considered. These initial costs may include termination pay, new data processing equipment, and staff training.

Three of the Four State Retirement Systems Have Similar Organizational Structures

The boards of trustees for the four retirement systems appoint directors, assistant directors, and other staff, as needed, to run the day-to-day operations of the systems. With the exception of the State Police Retirement System, all of the upper management positions for the three larger state retirement systems are similar and perform basically the same duties for their respective retirement systems. Appendix C includes organization charts for the four systems.

During fiscal year 1993-94, the four state retirement systems have a total of 25 upper management positions. The Teachers', State Employees', and School Employees' Retirement Systems have 23 of these positions: three executive directors, four assistant directors, three chief investment officers, three retirement benefit managers, three management information systems managers, three fiscal officers, three general counsels, and an internal auditor (with the Teachers' Retirement System). The two remaining positions are the executive and assistant directors of the State Police Retirement System.

At the State Police Retirement System, the executive director performs most of the duties of the retirement system, which includes processing claims, calculating benefits, and issuing benefit and refund checks. In addition, the executive director monitors investment responsibilities with help from the trust officer and representatives from the investment community. The system contracts with an external accountant who is responsible for all monthly accounting. All building and data processing needs of the system are provided by the Department of Public Safety and Corrections.

The new system may need only one-third of the current upper management positions, if the administration of the four state retirement systems is consolidated. The upper management of the new consolidated retirement system could consist of the following eight positions: executive director, assistant director, chief investment officer, retirement benefit manager, management information systems manager, fiscal officer, general counsel, and internal auditor.

All Four State Retirement Systems Provide Basically the Same Membership Services

The four state retirement systems provide similar basic membership services. However, officials of these systems said that they offered unique services to the membership beyond those required and that, under consolidation, members would no longer receive services in a timely and personalized fashion.

We found that all of the retirement systems offered the same basic services. All of the systems offer educational and informational services in some personalized fashion. Staff maintain regular contact with the active and retired members. Specifically, these membership services include the following: pre-retirement workshops, counseling, newsletters, purchases of service credit, estimates of benefits, and printouts of account history.

There were some additional services provided individually by the retirement systems. Those additional services included the following: federal tax information, tax sheltering, limited legal services, direct mailings, toll-free calling, and local liaisons. The services that are available from the systems separately could become available to all retirement system members under a consolidated administration.

The Four State Retirement Systems Currently Do Not Coordinate Their Daily Functions

Although each of the four retirement systems has the same mission, they function autonomously. Officials of these systems provided documentation for only the following three examples of administrative coordination:

- At the time of this audit, the Teachers', State Employees', and School Employees' Retirement Systems were working together to upgrade the job classifications of incumbents in the Retirement Benefits Analysts series. A representative from the Teachers' Retirement System was negotiating on behalf of all three systems to establish a new policy.
- The State Employees' and Teachers' Retirement Systems have a joint written policy on special Louisiana State University situations regarding service credit.
- The Teachers' and State Employees' Retirement Systems formed the Retirement Systems Building Management Partnership for the purpose of managing and maintaining the building they occupy. Each of these two retirement systems takes turns handling the administration of the building's operations in three-year blocks. Other occupants of the building lease space from the partnership.

The Louisiana Association of Public Employees Retirement Systems, organized in 1985, provides executive directors and assistant directors of the state, statewide, and municipal retirement systems an opportunity to network with each other. Through this organization, directors and assistant directors get to know each other and the systems they represent.

There is no legislation which establishes this organization. According to the president of the association, meetings are held twice a year and are informal. Topics of discussion center around current issues that affect public retirement systems. There is no membership fee and dues have been waived for the last two years. The officers (president, vice president, treasurer, and secretary) volunteer their time and serve a one-year term.

Louisiana's Four Systems Spent More in Administrative Expenses Than the Average of Six Membership-Comparable Systems in Other States

In fiscal year 1992, the combined administrative expenses for Louisiana's four state retirement systems were $8.4 million. Exhibits 3-1, 3-2, and 3-3 illustrate how Louisiana's four retirement systems compared to the membership-comparable consolidated retirement systems in other states we surveyed with regard to total staff, membership, assets, and administrative expenses. The administrative expenses do not include investment expenses, which are discussed in Chapter Four of this report.

Exhibit 3-1

Comparison of Louisiana's Four State Retirement Systems With Six Membership-Comparable Consolidated Retirement Systems in Other States for Fiscal Year 1992

Comparative ratios	Average of Louisiana's Four Systems	Average of the Six Comparable Systems	How Louisiana Differed from Comparable Systems
Members per staff	1,413	1,630	13% Less
Assets per staff	$52,215,627	$84,634,927	38% Less
Administrative expenses per member	$35	$29	21% More

Source: Prepared by Legislative Auditor's staff using information from financial statements and actuarial reports of Louisiana's four state retirement systems and surveys of six consolidated retirement systems with comparable membership in other states.

The combined administrative expenses for Louisiana's four systems were $35 per member. This was 21 percent higher than the average of $29 per member for the six membership-comparable consolidated systems in other states. Four of these six systems--Iowa, South Carolina, Tennessee, and Wisconsin--had lower administrative expenses than the combined expenses of Louisiana's four systems. The average administrative expenses for consolidated retirement systems in the 18 states we surveyed were $33 per member for fiscal year 1992 (see Appendix B).

The combined staff of Louisiana's four systems served fewer members than the membership-comparable systems in other states we surveyed. In fiscal year 1992, Louisiana's four state retirement systems had a total of 169 full-time equivalent positions serving a total of 238,750 active and retired members, or 1,413 members per staff. During the same period, the six membership-comparable systems in other states we surveyed had an average of 1,630 members per staff.

Exhibit 3-2

Staff and Administrative Expenses of Louisiana's Four State Retirement Systems for Fiscal Year 1992

	Teachers'	State Employees'	School Employees'	State Police	Four Systems Combined
Total staff	91	57	18	3	**169**
Total membership	121,068	93,938	22,127	1,617	**238,750**
Total assets	$5,080,166,075	$2,814,420,119	$885,875,871	$43,978,974	**$8,824,441,039**
Administrative expenses	$4,264,517	$2,903,945	$1,049,493	$139,487	**$8,357,442**
Members per staff	1,330	1,648	1,229	539	**1,413**
Assets per staff	$55,826,001	$49,375,792	$49,215,326	$14,659,658	**$52,215,627**
Administrative expenses per member	$35	$31	$47	$86	**$35**

Note: Total memberships consist of active and retired members. Total assets are balance sheet figures. Administrative expenses do not include investment expenses.

Source: Prepared by Legislative Auditor's staff using information from financial statements and actuarial reports of Louisiana's four state retirement systems.

Exhibit 3-3

Staff and Administrative Expenses of Six Membership-Comparable Consolidated Retirement Systems in Other States for Fiscal Year 1992

	Iowa	Maryland	South Carolina	Tennessee	Washington	Wisconsin
Total staff	49	124	131	85	277	252
Total membership	200,493	217,966	243,388	220,000	308,649	305,635
Total assets	$6,035,603,905	$12,761,070,000	$9,683,791,000	$9,905,275,000	$16,365,923,341	$22,943,200,000
Administrative expenses	$2,888,653	$7,833,000	$6,675,000	$3,850,000	$14,981,353	$7,580,140
Members per staff	4,092	1,758	1,858	2,588	1,114	1,213
Assets per staff	$123,175,590	$102,911,855	$73,922,068	$116,532,647	$59,082,756	$91,044,444
Administrative expenses per member	$14	$36	$27	$18	$49	$25

Note: Total memberships consist of active and retired members. Total assets are balance sheet figures. Administrative expenses do not include investment expenses.

Source: Prepared by Legislative Auditor's staff using information from surveys of consolidated retirement systems with comparable memberships in other states.

The total staff can be reduced by about 25 percent if the four retirement systems are consolidated. Currently, the four state retirement systems have a total of 197 full-time staff positions. This includes 25 upper management positions for the four systems. Exhibit 3-4 on the following page lists the total staff positions for each state retirement system, as well as salaries and related benefits.

Using a statistical technique (linear regression), we found strong relationships between the staff size and total membership as well as the staff size and total assets for consolidated retirement systems in 18 other states we surveyed. Based on our results, we estimate that, should Louisiana's four state retirement systems consolidate, the new consolidated system may need between 141 and 150 total staff compared to a current total of 197 positions.

This estimated range of staff is based on the total assets of $10.14 billion and total membership (active and retired) of 240,744 for Louisiana's four state retirement systems for fiscal year 1993. The total assets and the total membership figures were obtained from fiscal year 1993 financial statements and actuarial reports of the four systems.

Exhibit 3-4

Staff and Salaries and Benefits for Louisiana's Four State Retirement Systems for Fiscal Year 1994 (Budget)

Retirement Systems	Total Staff	Salaries and Benefits
Teachers'	102	$3,285,288
State Employees'	70	2,286,140
School Employees'	22	749,565
State Police	3	114,000
Total	**197**	**$6,434,993**

Source: Prepared by Legislative Auditor's staff using fiscal year 1994 budget information for Louisiana's four state retirement systems.

Between $1.5 to $1.8 million in salaries and related benefits can be saved by consolidating the staff of the four state retirement systems. These savings can be achieved by reducing the current total staff positions to an estimated range of 141 to 150. This estimate is based on the fiscal year 1994 budgeted salaries and related benefits ($6.4 million) for 197 staff positions of the four state retirement systems.

These savings in salaries and related benefits will be reduced by the cost of termination pay. In addition to these savings, there could be other savings or expenses relating to training, equipment, supplies, and office space.

The Consolidated System May Require New Data Processing Equipment

Three of the four retirement systems rely heavily upon their data processing departments for maintaining accounting data and membership information. Data processing departments use minicomputers to maintain this information and to print benefit checks for retirees in high volume runs.

The retirement systems either have not or no longer coordinate their data processing functions. Complete consolidation would require that the retirement systems assemble a database of all accounting records and membership information. The Legislative Actuary received approximately 350,000 sets of records from the four state retirement systems for fiscal year 1992.

The State Employees' Retirement System is in the transition phase of installing an IBM minicomputer with significantly greater capacity than its current equipment. However, data processing officials of the State Employees' Retirement System said that a consolidated system may require a mainframe computer for the growing volume of data.

According to the data processing officials of the Teachers' Retirement System, the current data processing equipment of their retirement system is not adequate to handle the needs of a consolidated system. This statement was corroborated by a representative of the data processing equipment firm, Hewlett Packard, which does business with the Teachers' Retirement System.

The School Employees' Retirement System data processing equipment is already being used to its capacity and is not adequate to serve a consolidated retirement system. The State Police Retirement System uses data processing services offered at no charge by the Department of Public Safety and Corrections.

The retirement systems data processing departments exchange data among themselves and reporting employers. When an employee enters or leaves one of the four retirement systems, the benefits and/or accounting departments generate electronic records updating their databases to account for that person's funds and membership.

The retirement systems keep records because they are required as fiduciaries to maintain them until they return any remaining funds to the beneficiaries. Furthermore, the retirement system officials in charge of these databases said that consolidation of accounting records would require an applications study to review the new procedures and requirements.

Imaging System. Both the State Employees' and Teachers' Retirement Systems are planning to acquire an imaging system. An imaging system is an addition to the data processing system to store data on compact discs. This system is being proposed to save the benefit administration staff the time it requires to locate physical records from files in responding to membership inquiries.

This type of project is a significant expense. Since these proposed imaging systems are still in the planning stage, a consolidated retirement system could avoid duplication of this expense.

By consolidating the data processing departments of the state retirement systems, there would be some savings in duplicative maintenance and professional services. Any savings would be reduced by cost of and maintenance for the new data processing system for the consolidated system. Costs of data processing consolidation will also include contract cancellation obligations, if any. Finally, the consolidation may not significantly reduce data processing staff size in the short term, because considerable coordination of effort will be necessary to consolidate the databases.

Each Retirement System Has a Separate Contract With the Same Actuary to Provide Nearly Identical Services

All four systems contract independently with the same actuary for the same basic services. In contracting with each retirement system, the actuary agrees to:

- prepare an annual valuation report indicating assets and liabilities of each plan for present and prospective annuities and benefits
- explain the annual valuation report to the board of trustees of each system
- be available for office and telephone consultation on actuarial matters
- attend meetings of boards of trustees as necessary
- attend all House and Senate Retirement Committee meetings
- assist the retirement system upon request, which includes keeping the retirement system informed of new trends, federal legislation, and how it may affect the individual retirement systems
- perform specified additional services as directed by the retirement system or its director, and such other duties as may be within the scope of services to be performed by the actuary

The Legislative Actuary is responsible for doing peer reviews of actuarial valuations and the employer contribution rates. The difference in the role of the Legislative Actuary and the state retirement systems' actuary is in the degree of independence the Legislative Actuary has in making actuarial assumptions. The Legislative Actuary meets with the retirement systems' actuary periodically throughout the year.

Only a very small amount of savings in actuarial services will be realized for the consolidated system. Should the retirement systems' administrations consolidate, a single professional services contract with a qualified actuary can be executed. In that case, the potential savings of a single contract for actuarial services are between $4,651 and $5,814.

The above savings are based on the information provided to us by the current actuary for the four systems. According to the actuary, only a small fraction of savings will be realized as a result of a consolidated system, because the actuary will still be doing four separate sets of calculations for the four current systems. Each of these systems has a separate benefit structure and liabilities. The actuary said that the savings will be as a result of dealing with one consolidated board instead of four separate boards.

Chapter Four: Investment Management

Chapter Conclusions

Each of the four state retirement systems independently contracts with investment custodians, consultants, and managers to provide investment services. The investments for all four systems are currently managed externally. On the other hand, nearly half of the consolidated retirement systems in other states we surveyed managed some portions of their investments in-house. All of the other states' systems with in-house investments had lower investment expenses than Louisiana's four systems.

The combined investment expenses for the four systems in fiscal year 1992 were $12.6 million, or $142,520 per $100 million in system assets. These investment expenses were 82 percent more than the average of $78,364 per $100 million for five membership-comparable systems in other states that provided investment information to us about their consolidated retirement systems.

We could not estimate overall savings that would result from pooling the assets of the four state retirement systems for investment purposes, because actual savings will depend on the consolidated system's investment policies. However, we identified specific areas of potential savings.

All Four Retirement Systems Independently Contract With Investment Professionals for Basically the Same Services

The four state retirement systems spent approximately $12.6 million for investment management services in fiscal year 1992 and $18 million for fiscal year 1993. Exhibit 4-1 on the following page breaks down the total amount spent by each system. Each retirement system contracts independently with investment custodians, consultants, and managers to provide investment management services. Each retirement system receives basically the same services under each type of contract.

Exhibit 4-1

Investment Expenses for the Four State Retirement Systems for Fiscal Years 1992 and 1993

Retirement System	Fiscal Year 1992	Fiscal Year 1993 (unaudited)
Teachers'	$6,983,091	$8,338,058
State Employees'	4,219,273	7,913,250
School Employees'	1,250,915	1,609,338
State Police	123,329	170,070
Totals	**$12,576,608**	**$18,030,716**

Source: Prepared by Legislative Auditor's staff from each retirement system's 1992 and 1993 financial statements

The following sections discuss in detail the investment management of Louisiana's four state retirement systems, and compare them with investment management of other states' retirement systems that we surveyed. A list of the investment firms and the retirement systems they serve is included in Appendix A.

Investment Custodians

The four state retirement systems spent approximately $1.5 million for investment custodial services during fiscal year 1993 and will spend a minimum projected $1.7 million for fiscal year 1994. Investment custodians are retained to act as depositories of the investment assets of the four state retirement systems. The custodians open and maintain accounts in the name of the retirement systems and hold all assets that may be received from the retirement systems or from others for the systems' accounts.

Two of the four retirement systems contract with more than one custodian. The Teachers' Retirement System contracts with one custodian for domestic investments and another custodian for its international investments. The State Employees' Retirement System contracts with three different custodians--one for fixed income and global investments, one for its equity investments, and one for real estate investments. The State Employees' Retirement System is in the process of searching for a single custodian to handle all investment types.

Three of the four custodial contracts can be terminated at any time with or without cause with either party giving a 30-day written notice. However, the Teachers' Retirement System's custodian contract requires a 90-day written notice.

Of the eight custodians serving the retirement systems for fiscal year 1994, four said that they would lower the variable portion of their fees to secure business with the consolidated system. We surveyed and received responses from eight financial institutions that currently do or will provide custodial services to the four state retirement systems during the fiscal year that will end June 30, 1994. Of the eight, two custodians will serve the School Employees' Retirement System. Each will provide services for a portion of the year. One firm's contract runs through October 31, 1993, of fiscal year 1994 and the other firm's contract begins November 1 and extends beyond the end of fiscal year 1994.

All respondents stated that their costs are either dependent upon investment portfolio size or on trading volume. Without this information, the respondents were unable to estimate their fees for a consolidated system. Therefore, we were not able to place a dollar value on the potential savings after consolidation of custodial services.

Investment Consultants

The four state retirement systems will spend approximately $466,000 for investment consultant services for fiscal year 1994. Each retirement system contracts with one investment consultant. The consultants perform most, and in some cases all, of the following services:

- complete asset allocation studies at a mutually agreed upon time
- assist in determining the appropriate mix of investment manager styles within each asset class
- assist in determining the appropriate funding levels for each investment manager or investment vehicle

- perform a review of all investment transactions by investment managers to ensure accuracy
- assist the boards in developing and modifying investment policy and procedure guidelines
- provide information on alternative investment strategies
- provide education and training on investment topics
- assist in asset transition among investment managers
- attend board meetings as the boards may designate

The length of the current contracts for investment consulting services varies among the four retirement systems: the School Employees' and State Police Retirement Systems are for two years; the Teachers' Retirement System is for three years; and the State Employees' Retirement System is for five years. All of these contracts can be terminated at no cost to the retirement systems. However, the contracts have some notification requirements.

For a consolidated retirement system, only one investment consultant would be necessary giving an estimated savings of between $123,714 and $267,714. We surveyed and received responses from all four firms that are providing investment consulting services to the four retirement systems.

According to the responses we received, the number of investment managers is the primary factor affecting a firm's bid for the provision of investment consulting services to a pension system. One of the consultants said a consolidated retirement system with $9-$10 billion in assets would only require 25 to 30 investment managers. However, consideration must be given to whether separate investment strategies are maintained for each system or whether the four systems pool their assets.

Therefore, should the four retirement systems be consolidated, the consolidated retirement system would save by only having one consultant. Furthermore, the new system could reduce the current number of investment managers and, thus achieve additional cost savings for investment consulting services.

Investment Managers

The investment managers invest a portion of each retirement system's assets given to them in accordance with the investment guidelines of the particular retirement system. All four systems retain the services of fixed income and equity investment managers.

Fixed income investment managers are given a certain amount of money by a system to invest in government, corporate, or municipal bonds. These securities pay a fixed rate of return. Equity investment managers are given a certain amount of money by a system to invest in stocks. Only the State Employees' Retirement System retains the services of real estate investment managers.

Thirty of the 47 investment managers responding to our survey said that they would decrease their fees if they were given additional assets to manage. However, they said that the reduction in fees will depend on the size of assets managed. We surveyed all 58 firms that will provide investment management services to the four state retirement systems during the fiscal year ending June 30, 1994. We received responses from 47, or 81 percent, of these firms.

The services offered by these investment managers fall into three broad categories: equity, fixed income, and real estate. The following paragraphs under this section summarize the responses of the 47 investment managers who returned our survey by category.

- Of the 25 equity investment managers, 13 managers would lower their fees if they were given more assets to manage. They responded as follows:
  - Nine managers would lower their fees if they were given an additional $50 million to manage.
  - Two managers said that they would need to manage an additional $100 million in assets before they will lower their management fees.
  - Two managers said that they would consider lowering their fees if the retirement system allocated them an additional $200 million in assets to manage.
- Three of the 12 fixed income managers said that they would lower their fees if they were allocated an additional $200 million in assets. Of the remaining nine, six fixed income managers said that they would lower their fees if they were allocated between $500 million and $1 billion in assets.
- Because only one state retirement system currently uses real estate investment managers and all investment fees are fixed, there are no savings to be achieved from

consolidating real estate investment management services. However, there could be potential savings in real estate investment management fees if the consolidated retirement system made future real estate investments in larger increments, said seven of the eight real estate investment managers surveyed.

- Of the two other investment management types, venture capital and operating business, one would reduce its fees while the other would not.

Four investment management firms that responded to our survey handled investments for at least two of the four state retirement systems during fiscal year 1993. By consolidating funds for investment, the retirement systems could obtain lower management fees. Two of these four managers who currently handle investments for two of the four retirement systems said that they would lower their fees. One manager said if the two portfolios they currently manage could be grouped, a lower overall fee schedule could be offered. The other manager said that they would have to have assets over $1 billion before they would offer a reduced fee structure.

However, the other two managers said that they would not lower their fees. Only one of these two managers gave a reason for not lowering the fees--the current fees are well below industry norms.

More than half of the states surveyed allocated $500 million or more in system's assets to one manager. Retirement systems in 11 other states we surveyed allocated between $513 million and $5.9 billion in assets for management to one fixed income or one equity manager or managed the assets in-house. These states are Arizona, Georgia, Iowa, Kansas, Maine, Maryland, Mississippi, Nevada, Rhode Island, Washington, and West Virginia.

In Louisiana, four fixed income managers were managing more than $500 million each--three for the Teachers' Retirement System and one for the State Employees' Retirement System. In addition, one equity manager was managing nearly $500 million for the Teachers' Retirement System.

Based on the survey responses of investment professionals, we determined that savings can be achieved through the reduction of the number of fixed income and equity investment managers by allocating more assets to one manager.

The primary objection to reducing the number of investment managers is an increase in investment risk. However, the risk in a portfolio is generally determined by the type of investment. Therefore, the consolidated system can reduce the number of investment managers without increasing risk. The consolidated system can maintain control of the underlying assets through investment policies and procedures similar to those already in place at the four state retirement systems.

The Four Systems Combined Spent 82 Percent More Than the Average Investment Expenses for the Five Membership-Comparable Systems

In fiscal year 1992, the combined investment expenses for Louisiana's four state retirement systems were $142,520 per $100 million in assets, compared to the average of $78,364 for the five membership-comparable consolidated retirement systems for which investment expense information was available. Only Iowa's investment expenses per $100 million in assets were higher than Louisiana's overall investment expenses.

The investment expenses for 17 of the 18 states we surveyed ranged from $6,461 (Tennessee) to $736,103 (New Hampshire), or an average of $112,766 per $100 million in system's assets (see Appendix B). Exhibit 4-2 lists Louisiana's four state retirement systems' combined investment expenses, total assets, and overall investment expenses per $100 million in assets for fiscal year 1992.

Exhibit 4-2

Investment Expenses Compared to Total Assets for Louisiana's Four State Retirement Systems for Fiscal Year 1992

	Teachers'	State Employees'	School Employees'	State Police	Total
Investment Expenses	$6,983,091	$4,219,273	$1,250,915	$123,329	**$12,576,608**
Total Assets (000's)					**$8,824,441**
Investment Expenses per $100 million in Assets					**$142,520**

Source: Prepared by Legislative Auditor's staff from retirement systems' financial statements.

Exhibit 4-3 shows a comparison of the investment expenses per $100 million in assets managed for the five membership-comparable consolidated retirement systems in other states for which investment expense information was available.

Exhibit 4-3

Investment Expenses Compared to Total Assets for Five Membership-Comparable Retirement Systems in Other States for Fiscal Year 1992

	Iowa	Maryland	Tennessee	Washington	Wisconsin	Average for Five States
Investment Expenses	$15,394,221	$8,292,000	$640,000	$23,110,522	$5,859,765	**$10,659,302**
Total Assets (000's)	$6,035,604	$12,761,070	$9,905,275	$16,365,923	$22,943,200	**$13,602,214**
Investment Expenses per $100 million in Assets	$255,057	$64,979	$6,461	$141,211	$25,540	**$78,364**

Source: Prepared by Legislative Auditor's staff from survey responses by state retirement systems in other states.

Nearly half of the states responding to our survey have in-house investment managers. When the retirement systems in other states were asked if they had in-house investment managers, 8 of the 17 consolidated state retirement systems stated they had in-house investment managers. Each of these states had lower investment expenses than did Louisiana's four systems combined. These states are Colorado, Georgia, Maryland, South Dakota, Tennessee, Washington, West Virginia, and Wisconsin. The number of these investment managers ranged from one in West Virginia to 43 in Wisconsin.

The four state retirement systems in Louisiana currently do not have any in-house investment managers. All of their investments are managed by external investment managers. (The Teachers' Retirement System manages its cash account in-house).

Exhibit 4-4 on the following page lists the number of in-house investment managers and the percent of assets they manage for five of the six membership-comparable states. Four of these states have in-house investment managers that manage between 48 percent and 100 percent of total assets for their respective systems.

Exhibit 4-4

In-House Management of Investments in Membership-Comparable States for Fiscal Year 1992

	Louisiana	Iowa	Maryland	Tennessee	Washington	Wisconsin
Number of In-House Investment Managers	0	0	4	21	10	43
Percent of Total Assets Managed by In-House Managers	0%	0%	60%	100%	48%	94%
Percent of Total Assets Managed by External Managers	100%	100%	40%	0%	52%	6%

Source: Prepared by Legislative Auditor's staff from survey responses by state retirement systems in other states.

Of the membership-comparable consolidated retirement systems in other states surveyed, four systems maintained a single investment strategy for separate funds. The retirement system in South Carolina maintained a separate investment strategy for separate funds, while Tennessee had consolidated funds for its retirement system. Exhibit 4-5 below summarizes these results.

Exhibit 4-5

Comparison of Investment Strategies in Membership-Comparable States for Fiscal Year 1992

Type of Funds and Strategy	Iowa	Maryland	South Carolina	Tennessee	Washington	Wisconsin
Consolidated Funds				X		
Separate Funds With One Investment Strategy	X	X			X	X
Separate Funds With a Separate Investment Strategy for Each Subsystem			X			

Source: Prepared by Legislative Auditor's staff from survey responses by state retirement systems in other states.

Because Louisiana's four state retirement systems are currently autonomous entities, they maintain four separate investment strategies. Should a consolidation of administration take place, separate funds could be maintained under a single investment policy. This would enable the consolidated retirement system to pool the assets of the current four systems and take advantage of reduced investment fees.

Appendix A

List of Investment Professionals
and the Actuary for
Louisiana's State Retirement Systems

Investment Custodians

Teachers' Retirement System of Louisiana

1. The Chase Manhattan Bank; Brooklyn, New York
   Contact Person: Mr. Robert Triano

2. City National Bank; Baton Rouge, Louisiana
   Contact Person: Ms. Koreen Walker

Louisiana State Employees' Retirement System

3. The Bank of New York; New York, New York
   Contact Person: Mr. Herb Tinsley

4. Custodial Trust Company; Princeton, New Jersey
   Contact Person: Mr. Kevin Darmody

5. Premier Bank; Baton Rouge, Louisiana
   Contact Person: Ms. Cindy Matthews

Louisiana School Employees' Retirement System

6. City National Bank; Baton Rouge, Louisiana
   Contact Person: Ms. Madeline Rubenstein
   (before 10/31/93)

7. Northern Trust; Chicago, Illinois
   Contact Person: Ms. Susan Gilpin
   (after 10/31/93)

State Police Pension and Retirement System

8. Premier Bank and Trust; Baton Rouge, Louisiana
   Contact Person: Mr. Keith Mooney

Louisiana Office of Legislative Auditor
Survey of Investment Custodians

Bank Name: <BANK> Phone: ( ) _______________
Person Completing Survey: ______________________ Title: ______________
Retirement System Servicing: <SYSTEM>

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1. What is the total amount your bank charged the retirement system for custodial services for the fiscal year ended June 30, 1993? $ ____________

2. What is the total amount your bank will charge the retirement system for custodial services for the fiscal year which will end June 30, 1994? $ ____________

3. What amount of the current charges are fixed charges? $ ____________

4. What amount of the current charges are variable charges? $ ____________
   a. Do variable charges depend on trading volume? ___ yes ___no
   b. What is the variable rate(s) and the basis for your rate(s)?

   ____

   ____

   ____

5. If Louisiana's four state retirement systems consolidate their assets, would your bank have the capabilities to service a retirement system with approximately $9 - 10 billion in total assets and approximately 50-60 investment managers?
   ___ yes ___ no If no, please skip Questions 6 and 7.

6. Would your bank lower its fixed rate if it were selected as a custodian for the investments of a consolidated state retirement system with total assets valued approximately at $9 - 10 billion. _____ Yes _____ No
   a. If yes, would the rates: _____ increase ____ decrease
   b. Would the rate change be: _ Less than 5%? __ 5-10%? __10-15% _ 15-20%? __>20%?

7. Would your bank lower its variable rate(s) if it were selected as a custodian for the investments of a consolidated state retirement system with total assets valued approximately at $ 9 - 10 billion. _____ Yes _____ No
   a. If yes, would the rates: _____ increase ____ decrease
   b. Would the rate change be: _ Less than 5%? __ 5-10%? __10-15% _ 15-20%? __ >20%?

Thank you for your assistance in this audit.
Please return the completed survey by November 2, 1993 to:
Glenn Lupo, Staff Performance Auditor
Office of Legislative Auditor
Post Office Box 94397; Baton Rouge, Louisiana 70804-9397
Phone: (504) 339-3835 Fax: (504) 342-3716

Investment Consultants

Teachers' Retirement System of Louisiana

1. Holbein Associates, Incorporated; Dallas, Texas
   Contact Person: Mr. Richard Holbein

Louisiana State Employees' Retirement System

2. New England Pension Consultants; Boston, Massachusetts
   Contact Person: Ms. Cathy Konicki

Louisiana School Employees' Retirement System

3. The Washington Hackett Company; New Orleans, Louisiana
   Contact Person: Ms. Christian Washington

State Police Pension and Retirement System

4. Paine Webber; New Orleans, Louisiana
   Contact Person: Mr. Robert Bickham

Louisiana Office of Legislative Auditor
Survey of Investment Consultants

Name of Firm: <FIRM> Phone: ( ) ____________

Person Completing Survey: ________________________ Title: ____________________

Retirement System Served: <SYSTEM>

---

1. What is the total amount your firm charged the retirement system for investment consulting services for the fiscal year ended June 30, 1993 (including professional travel etc.)?
   $ ____________

2. What is the total amount your firm projects to charge the retirement system for investment consulting services for the fiscal year that will end June 30, 1994 (including professional travel etc.)? $ ____________

3. What amount of the current charges are fixed charges? $ ______________

4. What amount of the current charges are variable charges? $ ______________

   a. Do variable charges depend on:
      ___ Trading volume?
      ___ Total Hours Spent?
      ___ Total Amount of Assets Under Management by Investment Managers/Advisors
      ___ Number of Investment Managers/Advisors
      ___ Other Please explain. ____

   b. What is your variable rate(s) and the basis for your rate(s)?
      ____
      ____
      ____

5. If Louisiana's four state retirement systems consolidate their assets, would your firm have the capabilities to service a retirement system with approximately $9-10 billion in total assets and approximately 50-60 investment managers?
   ___ yes ___ no If no, please skip to Question 8.

6. Would the fixed rate your firm charges the consolidated retirement system change from your current rate? ___ yes ___ no

   a. If yes, would the rates: _____ increase ____ decrease

   b. Would the rate change be: _ Less than 5%? ___ 5-10%? ___10-15% _ 15-20%? ___ >20%?

7. Would the variable rate your firm charges the consolidated retirement system change from your current rate? ___ yes ___ no

   a. If yes, would the rates: _____ increase ____ decrease

   b. Would the rate change be: _ Less than 5%? ___ 5-10%? ___10-15% _ 15-20%? ___ >20%?

8. May we please have a copy of your latest report to the Board of Trustees?

Thank you for your assistance in this audit. Please return the completed survey by October 29, 1993 to:

Glenn Lupo, Staff Performance Auditor
Office of Legislative Auditor
Post Office Box 94397; Baton Rouge, Louisiana 70804-9397
Phone: (504) 339-3835 Fax: (504) 342-3716

Investment Managers

Teachers' Retirement System of Louisiana

Fixed Income

1. Boatmen's Trust Company; St. Louis, Missouri
   Contact Person: Mr. Andy Holtgrieve

2. Criterion Investment Management; Houston, Texas
   Contact Person: Mr. Richard Garf

3. Scudder, Stevens and Clark; Boston, Massachusetts
   Contact Person: Mr. Samuel Thorne

4. Morgan Stanley Asset Management; New York, New York
   Contact Person: Mr. Bruce Ives

5. Kemper Asset Management; Chicago, Illinois
   Contact Person: Mr. George Klein

Equity

6. Sun Bank Capital Management; Orlando, Florida
   Contact Person: Mr. Victor Zollo

7. Eagle Asset Management, Incorporated; St. Petersburg, Florida
   Contact Person: Mr. Lincoln Kinnicutt

8. Invesco MIM, Incorporated; Atlanta, Georgia
   Contact Person: Mr. John Morgan

9. The Boston Company Institutional Investment; Greenbrae, California
   Contact Person: Mr. Harry Rosenbluth

10. The Boston Company Institutional Investment; Los Angeles, California
    Contact Person: Mr. Robert B. Starke

11. Palley-Needelman Asset Management; Newport Beach, California
    Contact Person: Mr. Roger Palley

12. Harris Bretall Sullivan and Smith; San Francisco, California
    Contact Person: Mr. Harry Smith

Small to Mid Cap

13. The Putnam Company; Boston, Massachusetts
    Contact Person: Mr. Jeff Gould

Investment Managers

Teacher's Retirement System of Louisiana (Cont'd)

Small to Mid Cap (Cont'd)

14. Scudder, Stevens and Clark; New York, New York
    Contact Person: Mr. Roy McKay

15. Trust Company of the West; Los Angeles, California
    Contact Person: Mr. Mark Gibello

16. Trust Company of the West; New York, New York
    Contact Person: Ms. Annette Geddes

17. Moran Asset Management; Greenwich, Connecticut
    Contact Person: Mr. Fred Moran

18. Alliance Capital Management; New York, New York
    Contact Person: Mr. Mike Gaffney

International Equity

19. Batterymarch Financial Management; Boston, Massachusetts
    Contact Person: Ms. Debbie Miller

20. Scudder, Stevens and Clark; New York, New York
    Contact Person: Mr. Greg Garrett

Louisiana State Employees' Retirement System

Fixed Income Managers

21. Duff and Phelps; Chicago, Illinois
    Contact Person: Mr. Richard Davis

22. Invesco Capital Management; Atlanta, Georgia
    Contact Person: Mr. Ralph Jenkins

23. Morgan Stanley Asset Management; New York, New York
    Contact Person: Mr. Gerry Barth

24. Trust Company of the West; Los Angeles, California
    Contact Person: Mr. Anthony Ator

Investment Managers

Louisiana State Employees' Retirement System (Cont'd)

Equity Managers

25. Amerindo Investment Advisors, Incorporated; San Francisco, California
    Contact Person: Mr. Ken Riffle

26. Chancellor Capital Management, Incorporated; New York, New York
    Contact Person: Ms. Patricia Chadwick

27. Fayez Sarofim and Company; Houston, Texas
    Contact Person: Mr. Rayne G. White

28. Investment Advisors, Incorporated; Minneapolis, Minnesota
    Contact Person: Mr. Kip Knelman

29. J and W Seligman and Company; New York, New York
    Contact person: Mr. Ronald Schroeder

30. Merus Capital Management; San Francisco, California
    Contact Person: Ms. Carolyn Carlson

31. Schaenen, Woods and Associates, Incorporated; New York, New York
    Contact Person: Mr. Michael Schaenen

32. State Street; Boston, Massachusetts
    Contact Person: Mr. Peter Stonberg

33. UBS Asset Management, Incorporated; New York, New York
    Contact Person: Mr. Obie McKenzie

International Equity Managers

34. Brinson Partners, Incorporated; Chicago, Illinois
    Contact Person: Mr. Tom McGarrity

35. Schroder Capital Management International; New York, New York
    Contact Person: Ms. Ellie Sullivan

36. Templeton Investment; Fort Lauderdale, Florida
    Contact Person: Ms. Sharon Pelletier

Global Fixed Income

37. Morgan Grenfell Investment Services; New York, New York
    Contact Person: Mr. Fred Devlin

Investment Managers

Louisiana State Employees' Retirement System (Cont'd)

Global Fixed Income (Cont'd)

38. Putnam Investment Management; Boston, Massachusetts
    Contact Person: Mr. Jeff Gould

Real Estate

39. Equitable Real Estate; Irvine, California
    Contact Person: Ms. Sandra Dzinski

40. Heitman Advisory Corporation; Chicago, Illinois
    Contact Person: Mr. Andrew Deckas

41. JMB Institutional Realty Corporation; Chicago, Illinois
    Contact Person: Mr. Michael Casey

42. L and B Real Estate Counsel; Dallas, Texas
    Contact Person: Mr. Andy Smith

43. Metropolitan Life Insurance Company; New York, New York
    Contact Person: Mr. Harry DuBrin

44. O'Connor Group; New York, New York
    Contact Person: Ms. Megan Young

45. PSI Realty; Glendale, California
    Contact Person: Ms. Vicki Aponik

46. TCW Realty Advisors; Los Angeles, California
    Contact Person: Mr. Bruce Lundwig

Venture Capital and Other Areas

47. Pathway Capital Managment; Los Angeles, California
    Contact Person: Mr. James Reinhart

48. Hancock Venture Partners; Boston, Massachusetts
    Contact Person: Mr. Fred Maynard III

Investment Managers

Louisiana School Employees' Retirement System

Fixed Income

49. Orleans Capital Management; New Orleans, Louisiana
Contact Person: Mr. Lewis Crane

50. Kemper Asset Management Company; Chicago, Illinois
Contact Person: Mr. George Klein

51. Morgan Stanley Asset Management; New York, New York
Contact Person: Mr. John Knox

Equity

52. State Street Asset Management; Boston, Massachusetts
Contact Person: Mr. Christopher Pope

53. Eagle Asset Management, Incorporated; St. Petersburg, Florida
Contact Person: Mr. Lincoln Kinnicutt

54. Munder Capital Management; Birmingham, Michigan
Contact Person: Mr. Len Bar

55. First Capital Advisors, Incorporated; New York, New York
Contact Person: Mr. Valerian Smith

State Police Pension and Retirement System

Fixed Income

56. Premier Bank and Trust; Baton Rouge, Louisiana
Contact Person: Mr. Keith Mooney

Equity

57. Palley-Needelman Asset Management, Incorporated;
Newport Beach, California
Contact Person: Ms. Beth Masiello

58. Fayez Sarofim and Company; Houston, Texas
Contact Person: Mr. Will Garwood

Louisiana Office of the Legislative Auditor
Survey Of Investment Managers

Investment Firm Name: ______________________________ Phone: ____________________

Person Completing Survey: ___________________________ Title: ____________________

Louisiana Retirement System(s) Receiving Services: ______________________________

---

1. Is your fee structure dependent upon the value of assets under management? yes___ no___

2. Would your management fee (in basis points) decrease if the assets that you manage for the above-mentioned retirement system(s) was increased:

   $ 50 million? yes___ no___

   $100 million? yes___ no___

   $200 million? yes___ no___

3. Is there a minimum value of assets-under-management that would allow your firm to lower its management fee (in basis points)? yes___ no___

   a. If yes, please list. $ ________________________

4. Does any part of your fee **not** vary with the value of the assets you manage? yes ____ no ____

   a. What item(s) does this include? Please list.

   b. For the most recent year, what percentage of the total fee was this (these) item(s)?
   Year: _____ _____%

5. What is the current dollar value of **all** of assets for which your firm is providing management services as a **fixed income advisor?** $ ____________________

6. What is the current dollar value of **all** of assets for which your firm is providing management services as an **equity advisor?** $ ____________________

7. If Louisiana's four state retirement systems were consolidated, would your firm change its fee structure in order to secure the business of this consolidated state retirement system?
   yes____ no____ If yes, please explain.

Please return completed survey form by **October 27, 1993** to:

Glenn Lupo, Staff Performance Auditor

Office of Legislative Auditor; Post Office Box 94397; Baton Rouge, LA 70804-9397

Phone: (504) 339-3835 Fax: (504) 342-3716

THANK YOU FOR YOUR RESPONSE

Actuary

Charles Hall
Hall Actuarial Associates
Baton Rouge, Louisiana

Note: Serves all four state retirement systems

Louisiana Office of Legislative Auditor
Survey of Actuary

Name of Firm: **Hall Actuarial Associates** Phone: ( ) ____________

Person Completing Survey: ________________________ Title: ________________

1. What is the amount your firm charged or will charge the state retirement systems listed below for actuarial services?

System	Fiscal Year Ending June 30, 1993 (Actual)			Fiscal Year Ending June 30,1994 (Projected)		
	Total	Fixed	Variable	Total	Fixed	Variable
Louisiana State Employees' Retirement System	$	$	$	$	$	$
Teachers' Retirement System of Louisiana						
School Employees' Retirement System						
State Police Pension and Retirement System						
Grand Total	$	$	$	$	$	$

2. Please provide the following information about your current **variable** rate.

System	Total Hours of Work Performed	Variable Rate Charged Per Hour	Factors Affecting Variable Rate
Louisiana State Employees' Retirement System		$	
Teachers' Retirement System of Louisiana			
School Employees' Retirement System			
State Police Pension and Retirement System			
Total Hours for 4 Systems			

3. If Louisiana's four state retirement systems consolidate their administration (but maintain the current multiple benefit plans for approximately 250,000 active and retired members), would your firm have the capability to serve such a system? ___ yes ___ no

4. Would the **Grand Totals** in Question 1 be reduced if these four state retirement systems' boards and administrations were consolidated into one? ___ yes ___ no
If yes, would the reduction be: _ Less than 5%? ___ 5-10%? ___10-15% _ 15-20%? ___ >20%?

5. Would the **Total Hours for four systems** in Question 2 be reduced if these four state retirement systems' boards and administrations were consolidated into one? ___ yes ___ no
If yes, would the reduction be: _ Less than 5%? ___ 5-10%? ___10-15% _ 15-20%? ___ >20%?

Thank you for your assistance in this audit. Please return the completed survey by November 1, 1993 to:

Rakesh Mohan, Senior Performance Auditor
Office of Legislative Auditor
Post Office Box 94397; Baton Rouge, Louisiana 70804-9397
Phone: (504) 339-3836 Fax: (504) 342-3716

Appendix B

Methodology for Survey of State Retirement Systems in Other States and Survey Results

Survey of Consolidated Retirement Systems in Other States

To produce a list of consolidated state retirement systems in other states, we searched PENDAT, a data base of surveys of state and local government employee retirement systems published in March 1993 for the members of the Public Pension Coordinating Council. Once we determined that the information in that data base was incomplete, we used two additional sources to identify consolidated retirement systems in other states: the 1992 report by the Pension Commission Clearinghouse and the 1991-1992 directory of State Administrative Officials Classified by Function.

To select which states to survey, we used the criteria of having at least two of the following three employee groups represented in their consolidated systems: general state employees, teachers, or non-teaching school employees.

Thirty-two states met our criteria and were identified to have state retirement systems with some form of administrative consolidation. Below is a list of states surveyed. The asterisks mark the five states which did not respond.

Alabama	Idaho	Montana*	South Carolina
Alaska*	Iowa	Nebraska*	South Dakota
Arizona	Kansas	Nevada	Tennessee
Colorado	Maine	New Hampshire	Utah
Delaware*	Maryland	New Jersey	Washington
Florida*	Minnesota	North Carolina	West Virginia
Georgia	Missouri	Oregon	Wisconsin
Hawaii	Mississippi	Rhode Island	Wyoming

We excluded 9 of the 27 responses from our analysis for the following reasons. Minnesota's survey response proved they do not have a consolidated system. Alabama and New Jersey have separate boards of trustees for each retirement system. Utah provided us with incomplete information. Although Missouri and Wyoming have retirement systems which are consolidated, the members served are not similar to the ones we have in Louisiana. Because of our time limits to perform this audit, Hawaii, Oregon, and North Carolina's responses are not included in our analysis, because they responded after the deadline for receiving surveys. A copy of the blank survey form is included on the following two pages. The survey results are summarized in the balance of this appendix.

STATE OF LOUISIANA - OFFICE OF LEGISLATIVE AUDITOR
Administration of Retirement Systems Survey

System Name: ____
Person Completing Survey: ______________________________________
Title:________________________________ Phone: (   ) ______________
Address: ____

---

1. The system is governed by a: ____ Board of Trustees ____ State Agency
   ____ Other: Please explain ____________________________________

2. To which of the following areas does the board of trustees' authority extend?

   ___ Investments ____ Benefits ____ Actuarial Assumptions ___ Administration
   ___ Other: Please explain _______________________________________

3. If your system is governed by a board of trustees, what is the board's composition?

	Number	Term
Appointed		
Elected by Active Members		
Elected by Retirees		
Ex-Officio		
Total		

3a. Please list the appointing authorities for appointed board members.

3b. Are your board members <u>required</u> to have any investment knowledge or experience? ____ yes ____ no
If yes, please explain.

4. **Fiscal Year 1992 Administrative Expenses**
   Excluding Investment Expenses: $ ____________________
   Investment Expenses Only: $____________________

5. **System Staff**

Position	Number	Position	Number
Executive		Clerical	
Investment		Retirement Advice/Outreach	
Benefit Administration		Other	
Accounting		Other	
Data Processing		**Total Positions**	

6. **Total Fiscal Year 1992 Retirement System Assets: $** ________________
   Fixed Income: $_____________ Equity: $ _____________ Other: $ ____________
   Total Fiscal Year 1992 Unfunded Accrued Liability: $________________

PLEASE TURN OVER

STATE OF LOUISIANA - OFFICE OF LEGISLATIVE AUDITOR
Administration of Retirement Systems Survey

7. **Investment Management**

Internal Management:

7a. Please enter the number of in-house investment managers _____.

7b. What percent of total assets do the in-house investment managers handle? _______%

7c. Which type(s) of investments do the in-house investment managers handle:

___Fixed Income ___ Equity ___ Real Estate __Cash/Short-term

7d. Which of the following functions do your in-house investment staff perform?

___ Manage system assets ___ Determine future asset allocations

___ Monitor external investment managers ___ Account for investments

External Management: List the total amount of financial assets managed by your 3 largest external financial managers under the appropriate heading. Also, please list the total fees and commissions paid to each manager for fiscal year 1992.

Fixed Income Managers				Equity Managers			
Fixed Income Manager	Amount Managed	Fees Paid for FY 1992	Commissions Paid for FY 1992	Equity Manager	Amount Managed	Fees Paid for FY 1992	Commissions Paid for FY 1992
1	$	$	$	1	$	$	$
2				2			
3				3			
Others				Others			
Total	$			**Total**	$		

8. **Membership Data**

Types of Members	Number
General State Employees	
Teachers (Elementary; H/S)	
Noncertified school employees	
Law Enforcement/State Police	
Other Types of Active Members	
Total Active Members	
Total Retired Members	
Total Membership	

9. **Benefit Plans**

Does your plan provide different benefit plans for different groups of employees? ____yes ____no

If yes, please list them.

Thank You For Your Response. Please return this survey by November 5, 1993 to:

Rakesh Mohan, Senior Performance Auditor
Louisiana Office of Legislative Auditor
Post Office Box 94397; Baton Rouge, Louisiana 70804-9397
Phone: (504) 339-3836 or FAX (504) 342-3716

Comparative Ratios for Other States' Consolidated Retirement Systems

Comparative Ratios for Other States' Consolidated Retirement Systems

Fiscal Year 1992	Arizona	Colorado	Georgia	Idaho
Total board members	7	16	7	5
Ex-officio members	0	2	3	0
Ex-officio/Total board	0%	13%	43%	0%
Appointed members	7	0	1	5
Appointed/Total board	100%	0%	14%	100%
Elected members	0	14	3	0
Elected/Total board	0%	88%	43%	0%
Total active members	139,633	136,898	123,000	51,557
Total active/Total board	19,948	8,556	17,571	10,311
Total retired members	39,302	36,186	28,000	17,847
Total retirees/Total board	5,615	2,262	4,000	3,569
Total membership	178,935	173,084	151,000	69,404
Total staff	127	179	50	48
Total membership/Total staff	1,409	967	3,020	1,446
Total assets	$8,458,861,357	$12,403,661,000	$4,500,068,000	$1,952,262,318
Total assets/Total board	$1,208,408,765	$775,228,813	$642,866,857	$390,452,464
Total assets/Total staff	$66,605,208	$69,294,196	$90,001,360	$40,672,132
Administrative expenses	$5,790,573	$12,727,111	$2,774,000	$2,435,051
Investment expenses	$8,168,500	$2,010,186	$1,832,900	$7,764,528
Total expenses	$13,959,073	$14,737,297	$4,606,900	$10,199,579
Administrative expenses/ Membership	$32	$74	$18	$35
Administrative expenses/ Assets (per $100 m)	$68,456	$102,608	$61,644	$124,730
Investment expenses/ Assets (per $100 m)	$96,567	$16,206	$40,730	$397,720
Total expenses/ Assets (per $100 m)	$165,023	$118,814	$102,374	$522,449
Notes:		Information as of 12/31/92		

Comparative Ratios for Other States' Consolidated Retirement Systems

Fiscal Year 1992	Iowa	Kansas	Maine	Maryland
Total board members	9	9	8	15
Ex-officio members	1	1	1	6
Ex-officio/Total board	11%	11%	13%	40%
Appointed members	8	6	4	5
Appointed/Total board	89%	67%	50%	33%
Elected members	0	2	2	4
Elected/Total board	0%	22%	25%	27%
Total active members	146,000	116,292	42,019	162,123
Total active/Total board	16,222	12,921	5,252	10,808
Total retired members	54,493	52,045	23,963	55,843
Total retirees/Total board	6,055	5,783	2,995	3,723
Total membership	200,493	168,337	65,982	217,966
Total staff	49	76	96	124
Total membership/Total staff	4,092	2,215	687	1,758
Total assets	$6,035,603,905	$4,337,570,718	$2,075,110,000	$12,761,070,000
Total assets/Total board	$670,622,656	$481,952,302	$259,388,750	$850,738,000
Total assets/Total staff	$123,175,590	$57,073,299	$21,615,729	$102,911,855
Administrative expenses	$2,888,653	$3,476,466	$5,053,933	$7,833,000
Investment expenses	$15,394,221	$16,914,687	$5,111,000	$8,292,000
Total expenses	$18,282,874	$20,391,153	$10,164,933	$16,125,000
Administrative expenses/ Membership	$14	$21	$77	$36
Administrative expenses/ Assets (per $100 m)	$47,860	$80,148	$243,550	$61,382
Investment expenses/ Assets (per $100 m)	$255,057	$389,958	$246,300	$64,979
Total expenses/ Assets (per $100 m)	$302,917	$470,105	$489,850	$126,361
Notes:			For fiscal year 1993	

Comparative Ratios for Other States' Consolidated Retirement Systems

Fiscal Year 1992	Mississippi	Nevada	New Hampshire	Rhode Island
Total board members	10	7	13	15
Ex-officio members	1	0	1	7
Ex-officio/Total board	10%	0%	8%	47%
Appointed members	1	7	12	2
Appointed/Total board	10%	100%	92%	13%
Elected members	8	0	0	6
Elected/Total board	80%	0%	0%	40%
Total active members	134,262	57,045	40,236	32,040
Total active/Total board	13,426	8,149	3,095	2,136
Total retired members	35,789	13,406	10,444	16,214
Total retirees/Total board	3,579	1,915	803	1,081
Total membership	170,051	70,451	50,680	48,254
Total staff	90	36	43	22
Total membership/Total staff	1,889	1,957	1,179	2,193
Total assets	$6,184,524,000	$4,284,797,518	$1,761,008,655	$2,165,308,100
Total assets/Total board	$618,452,400	$612,113,931	$135,462,204	$144,353,873
Total assets/Total staff	$68,716,933	$119,022,153	$40,953,690	$98,423,095
Administrative expenses	$5,065,000	$2,500,000	$2,289,000	$1,464,583
Investment expenses	$8,832,000	$7,700,000	$12,962,832	$6,552,491
Total expenses	$13,897,000	$10,200,000	$15,251,832	$8,017,074
Administrative expenses/ Membership	$30	$35	$45	$30
Administrative expenses/ Assets (per $100 m)	$81,898	$58,346	$129,982	$67,639
Investment expenses/ Assets (per $100 m)	$142,808	$179,705	$736,103	$302,612
Total expenses/ Assets (per $100 m)	$224,706	$238,051	$866,085	$370,251

Notes:

Comparative Ratios for Other States' Consolidated Retirement Systems

Fiscal Year 1992	South Carolina	South Dakota	Tennessee	Washington
Total board members	5	17	18	9
Ex-officio members	5	1	9	3
Ex-officio/Total board	100%	6%	50%	33%
Appointed members	0	2	4	6
Appointed/Total board	0%	12%	22%	67%
Elected members	0	14	5	0
Elected/Total board	0%	82%	28%	0%
Total active members	196,026	35,216	160,000	230,614
Total active/Total board	39,205	2,072	8,889	25,624
Total retired members	47,362	11,224	60,000	78,035
Total retirees/Total board	9,472	660	3,333	8,671
Total membership	243,388	46,440	220,000	308,649
Total staff	131	30	85	277
Total membership/Total staff	1,858	1,548	2,588	1,114
Total assets	$9,683,791,000	$1,802,861,461	$9,905,275,000	$16,365,923,341
Total assets/Total board	$1,936,758,200	$106,050,674	$550,293,056	$1,818,435,927
Total assets/Total staff	$73,922,069	$60,095,382	$116,532,647	$59,082,756
Administrative expenses	$6,675,000	$1,620,460	$3,850,000	$14,981,353
Investment expenses	N/A	$1,951,020	$640,000	$23,110,522
Total expenses	N/A	$3,571,480	$4,490,000	$38,091,875
Administrative expenses/ Membership	$27	$35	$18	$49
Administrative expenses/ Assets (per $100 m)	$68,930	$89,883	$38,868	$91,540
Investment expenses/ Assets (per $100 m)	N/A	$108,218	$6,461	$141,211
Total expenses/ Assets (per $100 m)	N/A	$198,101	$45,329	$232,751

Notes:

Comparative Ratios for Other States' Consolidated Retirement Systems

Fiscal Year 1992	West Virginia	Wisconsin	Average
Total board members	12	12	**11**
Ex-officio members	3	2	**3**
Ex-officio/Total board	25%	17%	**24%**
Appointed members	9	9	**5**
Appointed/Total board	75%	75%	**45%**
Elected members	0	1	**3**
Elected/Total board	0%	8%	**30%**
Total active members	77,365	224,127	**116,914**
Total active/Total board	6,447	18,677	**10,848**
Total retired members	38,579	81,508	**38,902**
Total retirees/Total board	3,215	6,792	**3,609**
Total membership	115,944	305,635	**155,816**
Total staff	44	252	**98**
Total membership/Total staff	2,635	1,213	**1,594**
Total assets	$1,857,042,000	$22,943,200,000	**$7,193,218,799**
Total assets/Total board	$154,753,500	$1,911,933,333	**$667,412,053**
Total assets/Total staff	$42,205,500	$91,044,444	**$73,608,834**
Administrative expenses	$4,190,120	$7,580,140	**$5,177,469**
Investment expenses	$1,990,120	$5,859,765	**$7,946,281** *
Total expenses	$6,180,240	$13,439,905	**$13,035,660** *
Administrative expenses/ Membership	$36	$25	**$33**
Administrative expenses/ Assets (per $100 m)	$225,634	$33,039	**$71,977**
Investment expenses/ Assets (per $100 m)	$107,166	$25,540	**$112,766** *
Total expenses/ Assets (per $100 m)	$332,800	$58,579	**$184,989** *
Notes:	For fiscal year 1993	Information as of 12/31/92	* Investment expense-related figures exclude South Carolina

Board Composition of Retirement Systems in Other States

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	Arizona	Colorado	Georgia
Retirement System Name	Arizona State Retirement System	Public Employees' Retirement Association of Colorado	Employees' Retirement System of Georgia
How is your system governed?	Board of Trustees, State Agency, and Investment Advisory Council (IAC)	Board of Trustees	Board of Trustees
Identify areas of the board of trustees' authority.	investments, actuarial assumptions, administration	investments, benefits, actuarial assumptions, administration	investments, benefits, actuarial assumptions, administration
What is the board composition and how are they appointed?	7 member board: appointed by the Governor and confirmed by the Senate. Serve 3 year terms.	16 member board: 12 elected by active members, 2 elected by retirees, 2 ex-officio members (State Treasurer and State Auditor). Serve 4 year terms.	7 member board: 1 appointed by the Governor, board of trustees elects 3, 3 ex-officio members. Serve 4 year terms.
Are the board members required to have any investment knowledge?	Yes, one member serves on the IAC and must meet the requirements for that position.	Yes, there is no pre-requisite to run but each member is sent to training seminars after they are elected.	Yes, one member must have at least 10 years experience in the investment field.
NOTES:		Information as of 12/31/92	

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	Idaho	Iowa	Kansas
Retirement System Name	Public Employee Retirement System of Idaho	Iowa Public Employees' Retirement System	Kansas Public Employees' Retirement System
How is your system governed?	Board of Trustees	Investment Board	Board of Trustees
Identify areas of the board of trustees' authority.	investments, actuarial assumptions, administration	investments	investments, actuarial assumptions, administration
What is the board composition and how are they appointed?	5 member board appointed by the Governor. Serve 5 year terms.	9 member board: 8 appointed, 1 ex-officio. Governor appoints 2 active members, 1 retired member and 3 Iowa business people. Senate and House appoint 1 member each. Serve 5 year terms.	9 member board: 4 appointed by Governor, 2 by the legislature, 2 elected by active members and retirees (together), 1 ex-officio. Serve 4 year terms.
Are the board members required to have any investment knowledge?	No	No	Yes, must have 5 years of investment experience.
NOTES:			

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	Maine	Maryland	Mississippi
Retirement System Name	Maine State Retirement System	Maryland State Retirement and Pension Systems	Public Employees' Retirement System of Mississippi
How is your system governed?	Board of Trustees	Board of Trustees	Board of Trustees and State Agency
Identify areas of the board of trustees' authority.	investments, benefits, actuarial assumptions, administration	Benefits, actuarial assumptions, administration, investments	investments, benefits, actuarial assumptions, administration
What is the board composition and how are they appointed?	8 member board: State Treasurer (ex-officio), Teachers' Association of Maine Representative (elected), State Employees' Representative (elected), 4 appointed by the Governor, and 1 appointed by the Maine Municipal Association.	15 member board: 3 appointed by Governor, 2 appointed by Governor, Treasurer, Comptroller, 2 elected by active members, 2 elected by retirees, 6 ex-officio. Serve 4 year terms.	10 member board: 1 appointed, 1 ex-officio serving 4 year terms, 6 active members (elected), 2 retiree members (elected) serving 6 year terms.
Are the board members required to have any investment knowledge?	Yes, 2 members must be actuaries.	No	No
NOTES:	For fiscal year 1993		

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	New Hampshire	Nevada	Rhode Island
Retirement System Name	New Hampshire Retirement System	Public Employees Retirement System of Nevada	Employees Retirement System of the State of Rhode Island
How is your system governed?	Board of Trustees	Board of Trustees	Board of Trustees
Identify areas of the board of trustees' authority.	investments, benefits, actuarial assumptions, administration	investments, benefits, actuarial assumptions, administration	administration
What is the board composition and how are they appointed?	13 member board: 12 appointed by the Governor and Executive Counsel serving two year term; 1 is an ex officio member.	7 member board: appointed by the Governor. Serve 4 year terms.	15 member board: 7 ex-officio members, 2 members representing teachers, 2 members representing state workers, 1 retired member representative, 1 muncipal employee representative, 2 appointed by the Governor.
Are the board members required to have any investment knowledge?	No	No	N/A
NOTES:			

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	South Carolina	South Dakota	Tennessee
Retirement System Name	South Carolina Retirement Systems	South Dakota Retirement System	Tennessee Retirement System
How is your system governed?	*Board of Trustees*	*Board of Trustees*	*Board of Trustees* (under Treasurer's office)
Identify areas of the board of trustees' authority.	investments, benefits, actuarial assumptions, administration	benefits, actuarial assumptions, administration	investments, actuarial assumptions, administration
What is the board composition and how are they appointed?	5 ex-officio members composed of Governor, State Treasurer, Comptroller General, Chairman House Ways and Means Committee, and Chairman of Senate Finance Committee. Serve concurrent with elected position.	17 member board: Governor appoints 2, 3 trustees elected by participating employees, 1 ex-officio, 1 elected by retirees, and 10 elected by active members.	18 member board: 4 appointed (1 Governor, 1 county officials assoc., 1 Tenn. Municipal League, 1 County Services Assoc.), 5 elected by active members, 9 ex-offiicio.
Are the board members required to have any investment knowledge?	No	No	No
NOTES:			

Board Composition of Retirement Systems in Other States--Fiscal Year 1992

Question	Washington	West Virginia	Wisconsin
Retirement System Name	Washington State Department of Retirement Systems and Investment Board	West Virginia Consolidated Public Retirement Board	Wisconsin Retirement System
How is your system governed?	Board of Trustees and State Agency	Board of Trustees	Board of Trustees
Identify areas of the board of trustees' authority.	investments	investments, benefits, actuarial assumptions, administration	actuarial assumptions, administration (separate investment board)
What is the board composition and how are they appointed?	9 member board: 6 appointed (3 Governor, 1 Senate, 1 House, 1 Supt. of Schools), 3 ex-officio members. 5 non-voting members appointed by the 9 member board as an advisory board.	12 member board: 9 appointed by the Governor, 3 ex-officio. Serve 5 year terms.	12 member board: 1 member appointed by Governor, 4 members appointed by Wisconsin Retirement Board and 4 members appointed by the teacher retirement board, 1 elected by retirees, 2 ex-officio.
Are the board members required to have any investment knowledge?	Yes, members on the advisory board must have investment knowledge.	No	Separate investment board requiring 10 years investment experience.
NOTES:		For Fiscal Year 1993	Information as of 12/31/92

Systems' Expenses and Investment Management in Other States

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	Arizona	Colorado	Georgia
Administrative expenses (excluding investment expenses)	$5,790,573	$12,727,111	$2,774,000
Investment expenses	$8,168,500	$2,010,186	$1,832,900
Total assets (Book Value)	$8,458,861,357	$12,403,661,000	$4,500,068,000
Fixed income	$4,940,167,442	$4,061,419,450	$2,100,000,000
Equity	$3,602,478,533	$6,373,849,660	$2,100,000,000
Other type of assets	$568,650,388	$1,786,877,890	$3,800,000
Unfunded accrued liability	Overfunded ($631,918,000)	$1,086,068,000	$847,000,000
In-house investment managers	0	25	4
Percent of total assets handled by in-*house managers*	*0%*	77%	50%
Types of investments handled by in-house managers	N/A	fixed income, equity, real estate, *cash/short-term*	fixed income, cash/short-term
Functions of in-house investment staff	account for investments	manage system assets, determine future asset allocations, monitior external investment managers, account for investments	manage system assets, monitor external investment managers, account for investments
Notes:		Information as of 12/31/92	

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	Idaho	Iowa	Kansas
Administrative expenses (excluding investment expenses)	$2,435,051	$2,888,653	$3,476,466
Investment expenses	$7,764,528	$15,394,221	$16,914,687
Total assets (Book Value)	$1,952,262,318	$6,035,603,905	$4,337,570,718
Fixed income	$822,241,918	$2,920,000,000	$2,086,327,233
Equity	$1,067,121,180	$2,050,000,000	$1,512,464,602
Other type of assets	$277,440,294	$1,255,000,000	$583,313,223
Unfunded accrued liability	$706,300,000	$0	Overfunded ($42,226,032)
In-house investment managers	0	0	0
Percent of total assets handled by in-house managers	0%	0%	0%
Types of investments handled by in-house managers	N/A	N/A	N/A
Functions of in-house investment staff	monitor external investment managers, determine future asset allocations	determine future asset allocations, monitor external investment managers, account for investments	monitor external investment managers, manage system assets, set asset allocations, account for investments
Notes:			

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	Maine	Maryland	Mississippi
Administrative expenses (excluding investment expenses)	$5,053,933	$7,833,000	$5,065,000
Investment expenses	$5,111,000	$8,292,000	$8,832,000
Total assets (Book Value)	$2,075,110,000	$12,761,070,000	$6,184,524,000
Fixed income	$1,094,900,000	$7,970,202,000	$3,100,211,000
Equity	$1,793,000,000	$5,065,371,000	$1,796,211,000
Other type of assets	$45,957,000	$643,177,000	$903,256,000
Unfunded accrued liability	$1,246,000,000	$5,621,406,000	$2,960,725,955
In-house investment managers	0	4	0
Percent of total assets handled by in-house managers	0%	60%	0%
Types of investments handled by in-house managers	N/A	fixed income, equity, cash/short term	N/A
Functions of in-house investment staff	monitor external investment managers, account for investments	manage system assets, set future asset allocations, monitor external investment managers	monitor external investment managers, cash/short-term
Notes:	Information for fiscal year 1993		

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	Nevada	New Hampshire	Rhode Island
Administrative expenses (excluding investment expenses)	$2,500,000	$2,289,000	$1,464,583
Investment expenses	$7,700,000	$12,962,832	$6,552,491
Total assets (Book Value)	$4,284,797,518	$1,761,008,655	$2,165,308,100
Fixed income	$2,100,000,000	$444,000,000	$1,019,197,839
Equity	$1,800,000,000	$938,000,000	$910,108,542
Other type of assets	$600,000,000	$354,275,000	$486,752,933
Unfunded accrued liability	$1,900,000,000	$6,946,372	$1,171,427,508
In-house investment managers	0	0	0
Percent of total assets handled by in-house managers	0%	0%	0%
Types of investments handled by in-house managers	N/A	N/A	N/A
Functions of in-house investment staff	determine future asset allocations, monitor external investments	N/A	manage system assets, determine asset allocations, monitor external investment managers, account for investments
Notes:			

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	South Carolina	South Dakota	Tennessee
Administrative expenses (excluding investment expenses)	$6,675,000	$1,620,460	$3,850,000
Investment expenses	N/A under treasurers office	$1,951,020	$640,000
Total assets (Book Value)	$9,683,791,000	$1,802,861,461	$9,905,275,000
Fixed income	$9,665,440,000	$603,484,582	$6,357,810,390
Equity	$0	$876,661,702	$3,665,374,477
Other type of assets	$0	$303,585,832	$683,238,107
Unfunded accrued liability	$3,252,000,000	$109,000,731	$1,500,000,000
In-house investment managers	N/A	12	21
Percent of total assets handled by in-house managers	N/A	94%	100%
Types of investments handled by in-house managers	N/A	fixed income, equity, cash/short-term	fixed income, equity, cash/short-term
Functions of in-house investment staff	N/A	manage assets, determine asset allocation,monitor external investment managers, account for investments	manages system assets, determine future asset allocations
Notes:			

Systems' Expenses and Investment Management in Other States

Fiscal Year 1992	Washington	West Virginia	Wisconsin
Administrative expenses (excluding investment expenses)	$14,981,353	$4,190,120	$7,580,140
Investment expenses	$23,110,522	$1,990,120	$5,859,765
Total assets (Book Value)	$16,365,923,341	$1,857,042,000	$22,943,200,000
Fixed income	$8,561,752,136	$1,993,537,000	$8,698,000,000
Equity	$7,570,352,852	$6,101,000	$15,100,000,000
Other type of assets	$226,919,086	$0	$854,000,000
Unfunded accrued liability	$4,276,000,000	$0	$1,984,900,000
In-house investment managers	10	1	43
Percent of total assets handled by in-house managers	48%	2%	94%
Types of investments handled by in-house managers	fixed income, cash/short-term	fixed income, equity, cash/short-term	fixed income, equity, real estate, cash/short-term
Functions of in-house investment staff	manage assets, determine asset allocations, monitor external investment managers, account for investments	monitor external investment mangers, account for investments	manage system assets, determine asset allocation, monitor external investment managers, account for investments
Notes:		Information for fiscal year 1993	Information as of 12/31/92

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	Arizona	Colorado	Georgia
Executive	8	2	3
Investment	4	25	7
Benefit administration	22	46	25
Accounting	7	18	3
Data processing	12	35	1
Clerical	24	0	9
Retirement advice	17	11	2
Other	15	42	0
Other	18	0	0
Total staff positions	127	179	50

Membership			
General state employees	38,246	49,429	65,000
Teachers	45,509	49,836	0
Non-certified school employees	Included with other types	26,834	30,000
Law enforcement/state police	0	500	Included with general state employees
Other active members	55,878	10,300	28,000
Total active members	139,633	136,898	123,000
Total retired members	39,302	36,186	28,000
Total Membership	178,935	173,084	151,000
Different Plan for Different Groups of Employees?	No	Yes	Yes
		State Patrol; judges	State Police; non-certified school employees; Legislative; part-time and seasonal employees; trial judges; and solicitors
Notes:		Information as of 12/31/92	

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	Idaho	Iowa	Kansas
Executive	2	1	2
Investment	2	9	6
Benefit administration	8	3	10
Accounting	8	5	10
Data processing	6	5	8
Clerical	9	10	37
Retirement advice	7	15	3
Other	2	1	0
Other	4	0	0
Total staff positions	48	49	76

Membership			
General state employees	32,636	27,594	26,747
Teachers	14,950	66,722	60,472
Non-certified school employees	0	Included with teachers	Included with teachers
Law enforcement/state police	3,971	4,380	5,164
Other active members	0	47,304	23,909
Total active members	51,557	146,000	116,292
Total retired members	17,847	54,493	52,045
Total Membership	69,404	200,493	168,337
Different Plan for Different Groups of Employees?	Yes	Yes	Yes
	Police and firemen; counties and cities	Police and firemen; county and city employees	Public employees; police; firemen; and judges

Notes:

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	Maine	Maryland	Mississippi
Executive	10	4	8
Investment	2	7	4
Benefit administration	32	45	18
Accounting	22	18	11
Data processing	12	20	13
Clerical	7	0	21
Retirement advice	0	21	2
Other	4	5	11
Other	7	4	2
Total staff positions	96	124	90

Membership			
General state employees	13,911	84,973	30,133
Teachers	27,296	74,849	57,322
Non-certified school employees	0	0	Included with teachers
Law enforcement/state police	812	4,041	0
Other active members	8,869	260	46,807
Total active members	42,019	162,123	134,262
Total retired members	23,963	55,843	35,789
Total Membership	65,982	217,966	170,051
Different Plan for Different Groups of Employees?	Yes	Yes	No
	State Police and prison employees	Teachers; State Employees; State Police; judges; local police and firefighters	
Notes:	For fiscal year 1993		

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	Nevada	New Hampshire	Rhode Island
Executive	3	3	3
Investment	2	4	0
Benefit administration	6	7	3
Accounting	6	12	9
Data processing	4	5	3
Clerical	6	7	4
Retirement advice	0	0	0
Other	2	3	0
Other	7	2	0
Total staff positions	36	43	22

Membership	Nevada	New Hampshire	Rhode Island
General state employees	12,538	8,196	13,911
Teachers	22,408	15,262	11,891
Non-certified school employees	Included with teachers	12,294	0
Law enforcement/state police	6,675	3,153	0
Other active members	15,424	1,331	6,238
Total active members	57,045	40,236	32,040
Total retired members	13,406	10,444	16,214
Total Membership	70,451	50,680	48,254
Different Plan for Different Groups of Employees?	No	Yes	Yes

Notes:

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	South Carolina	South Dakota	Tennessee
Executive	6	4	10
Investment	0	2	21
Benefit administration	40	6	40
Accounting	19	6	4
Data processing	25	1	4
Clerical	29	5	0
Retirement advice	4	2	6
Other	8	3	0
Other	0	1	0
Total staff positions	131	30	85

Membership	South Carolina	South Dakota	Tennessee
General state employees	65,061	8,033	40,469
Teachers	76,987	12,138	50,462
Non-certified school employees	0	6,100	0
Law enforcement/state police	17,889	1,377	0
Other active members	36,089	7,568	67,237
Total active members	196,026	35,216	160,000
Total retired members	47,362	11,224	60,000
Total Membership	243,388	46,440	220,000
Different Plan for Different Groups of Employees?	Yes	Yes	No
	General state and local employees; police; firemen; General Assembly members; state judges and solicitors; school employees	Public Safety; general employees; and judicial	

Notes:

Staff and Membership Sizes for Consolidated Retirement Systems in Other States

Staff Positions/Number	Washington	West Virginia	Wisconsin
Executive	11	1	10
Investment	10	1	80
Benefit administration	0	7	10
Accounting	0	3	10
Data processing	0	4	25
Clerical	0	12	50
Retirement advice	5	4	27
Other	*251	12	40
Other	0	0	0
Total staff positions	277	44	252

Membership			
General state employees	103,675	31,339	120,142
Teachers	74,855	45,560	72,132
Non-certified school employees	39,262	Included with teachers	Included with general employees
Law enforcement/state police	7,810	412	12,160
Other active members	5,012	54	19,693
Total active members	230,614	77,365	224,127
Total retired members	78,035	38,579	81,508
Total Membership	308,649	115,944	305,635
Different Plan for Different Groups of Employees?	Yes	Yes	Yes
			Elected officials and protective employees
Notes:	*includes 35 staff from the Investment Board	For fiscal year 1993	Information as of 12/31/92

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

	Arizona	Colorado	Georgia
Fixed Income Managers			
Largest fixed income manager	$1,279,000,000	$223,046,000	$1,800,000,000
Fees paid	$90,000	$451,000	$0
Commission	$0	$0	$0
Second largest fixed income manager	$1,024,000,000	$215,914,000	N/A
Fees paid	$1,466,413	$228,000	N/A
Commission paid	$0	$0	N/A
Third largest fixed income manager	$782,000,000	$28,583,000	N/A
Fees paid	$242,422	$82,000	N/A
Commission paid	$0	$0	N/A
Other fixed income managers combined	$1,855,000,000	$28,023,000	N/A
Fees paid	$1,901,158	$55,000	N/A
Commission paid	$0	$0	N/A
Total managed by fixed income managers	$4,940,000,000	$495,566,000	$1,800,000,000
Fees paid	$3,699,993	$816,000	$0
Commissions paid	$0	$0	$0
Equity Managers			
Largest equity manager	$1,904,000,000	$237,949,000	$1,083,000,000
Fees paid	$339,143	$300,000	$0
Commission	$0	$36,000	$0
Second largest equity manager	$513,000,000	$195,460,000	$788,000,000
Fees paid	$734,638	$398,000	$0
Commission paid	$0	$167,000	$0
Third largest equity manager	$479,000,000	$177,942,000	$536,000,000
Fees paid	$771,070	$831,000	$0
Commission paid	$0	$174,000	$0
Other equity managers combined	$1,498,000,000	$989,260,000	N/A
Fees paid	$1,964,813	$4,096,000	N/A
Commission paid	$0	$2,712,000	N/A
Total managed by equity managers	$3,602,000,000	$1,600,611,000	$2,407,000,000
Fees paid to equity managers	$3,809,664	$5,625,000	$0
Commissions paid to equity managers	$0	$3,089,000	$0

Notes:

Information as of 12/31/92

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

	Idaho	Iowa	Kansas
Fixed Income Managers			
Largest fixed income manager	$241,800,000	$792,200,000	$550,000,000
Fees paid	$735,480	$0	$1,125,451
Commission	$0	$0	$0
Second largest fixed income manager	$230,000,000	$522,600,000	$510,000,000
Fees paid	$67,354	$0	$1,345,755
Commission paid	$0	$0	$12,000
Third largest fixed income manager	N/A	$479,000,000	$330,000,000
Fees paid	N/A	$0	$198,878
Commission paid	N/A	$0	$0
Other fixed income managers combined	$421,400,000	$750,300,000	$696,000,000
Fees paid	$989,483	$0	$1,021,558
Commission paid	N/A	$0	$0
Total managed by fixed income managers	$893,200,000	$2,544,100,000	$2,086,000,000
Fees paid	$1,792,317	$0	$3,691,642
Commissions paid	$0	$0	$12,000
Equity Managers			
Largest equity manager	$374,400,000	$486,600,000	$375,000,000
Fees paid	$224,818	$1,100,000	$1,925,197
Commission	$0	$0	$198,824
Second largest equity manager	N/A	$436,800,000	$360,000,000
Fees paid	N/A	$100,000	$884,012
Commission paid	N/A	$0	$755,889
Third largest equity manager	N/A	$256,400,000	$360,000,000
Fees paid	N/A	$150,000	$91,538
Commission paid	N/A	$0	$19,653
Other equity managers combined	$524,100,000	$480,300,000	$417,000,000
Fees paid	$1,727,969	$1,310,000	$2,626,595
Commission paid	N/A	$0	$1,176,633
Total managed by equity managers	$898,500,000	$1,660,100,000	$1,512,000,000
Fees paid to equity managers	$1,952,787	$2,660,000	$5,527,342
Commissions paid to equity managers	$0	$0	$2,150,999

Notes:

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

	Maine	Maryland	Mississippi
Fixed Income Managers			
Largest fixed income manager	N/A	$334,800,000	$944,966,000
Fees paid	N/A	$633,390	$0
Commission	N/A	$0	$0
Second largest fixed income manager	N/A	$305,200,000	$806,155,000
Fees paid	N/A	$627,914	$0
Commission paid	N/A	$0	$0
Third largest fixed income manager	N/A	$147,400,000	$605,208,000
Fees paid	N/A	$282,279	$0
Commission paid	N/A	$0	$0
Other fixed income managers combined	N/A	N/A	$1,048,991,000
Fees paid	N/A	N/A	$0
Commission paid	N/A	N/A	$0
Total managed by fixed income managers	$1,008,500,000	$787,400,000	$3,405,320,000
Fees paid	N/A	$1,543,583	$0
Commissions paid	N/A	N/A	$0
Equity Managers			
Largest equity manager	$763,000,000	$2,405,200,000	$413,078,000
Fees paid	$152,666	$390,735	$0
Commission	$0	$0	$0
Second largest equity manager	N/A	$1,327,500,000	$403,337,000
Fees paid	N/A	$684,205	$0
Commission paid	N/A	$0	$0
Third largest equity manager	$128,000,000	$296,400,000	$974,308,000
Fees paid	$185,040	$751,500	$0
Commission paid	$258,231	$0	$0
Other equity managers combined	N/A	N/A	$693,331,000
Fees paid	N/A	N/A	$0
Commission paid	N/A	N/A	$0
Total managed by equity managers	N/A	$4,029,100,000	$2,484,054,000
Fees paid to equity managers	N/A	$1,826,440	$0
Commissions paid to equity managers	N/A	N/A	$0

Notes: For fiscal year 1993

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

	Nevada	New Hampshire	Rhode Island
Fixed Income Managers			
Largest fixed income manager	$517,000,000	$122,000,000	$811,927,000
Fees paid	$657,104	$239,000	$525,000
Commission	$0	$0	$0
Second largest fixed income manager	$476,000,000	$117,000,000	$299,972,000
Fees paid	$654,279	$273,000	$125,000
Commission paid	$0	$0	$0
Third largest fixed income manager	$466,000,000	$81,000,000	$85,190,000
Fees paid	$657,742	$187,000	$94,000
Commission paid	$0	$0	$0
Other fixed income managers combined	$645,000,000	$124,000,000	N/A
Fees paid	$1,447,910	$458,000	N/A
Commission paid	$0	$0	N/A
Total managed by fixed income managers	$2,104,000,000	$444,000,000	$1,197,089,000
Fees paid	$3,417,035	$1,157,000	$744,000
Commissions paid	$0	$0	$0
Equity Managers			
Largest equity manager	$492,000,000	$163,000,000	$567,844,000
Fees paid	$133,946	$529,000	$525,000
Commission	$0	$0	$135,960
Second largest equity manager	$487,000,000	$146,000,000	$266,795,000
Fees paid	$264,799	$555,000	$172,800
Commission paid	$0	$0	$117,830
Third largest equity manager	$330,000,000	$131,000,000	$263,253,000
Fees paid	$322,140	$619,000	$273,700
Commission paid	$0	$0	$362,562
Other equity managers combined	$493,000,000	$498,000,000	$339,021,000
Fees paid	$1,325,326	$1,400,000	$1,790,000
Commission paid	$0	$0	$290,049
Total managed by equity managers	$1,802,000,000	$938,000,000	$1,436,913,000
Fees paid to equity managers	$2,046,211	$3,103,000	$2,761,500
Commissions paid to equity managers	$592,650	$0	$906,401

Notes:

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

	South Carolina	South Dakota	Tennessee
Fixed Income Managers			
Largest fixed income manager	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission	N/A	N/A	N/A
Second largest fixed income manager	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Third largest fixed income manager	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Other fixed income managers combined	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Total managed by fixed income managers	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commissions paid	N/A	N/A	N/A

	South Carolina	South Dakota	Tennessee
Equity Managers			
Largest equity manager	N/A	$28,300,000	N/A
Fees paid	N/A	$162,000	N/A
Commission	N/A	$0	N/A
Second largest equity manager	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Third largest equity manager	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Other equity managers combined	N/A	N/A	N/A
Fees paid	N/A	N/A	N/A
Commission paid	N/A	N/A	N/A
Total managed by equity managers	N/A	$28,300,000	N/A
Fees paid to equity managers	N/A	$162,000	N/A
Commissions paid to equity managers	N/A	$0	N/A

Notes:

Asset Allocations to Investment Managers for Consolidated Retirement Systems in Other States

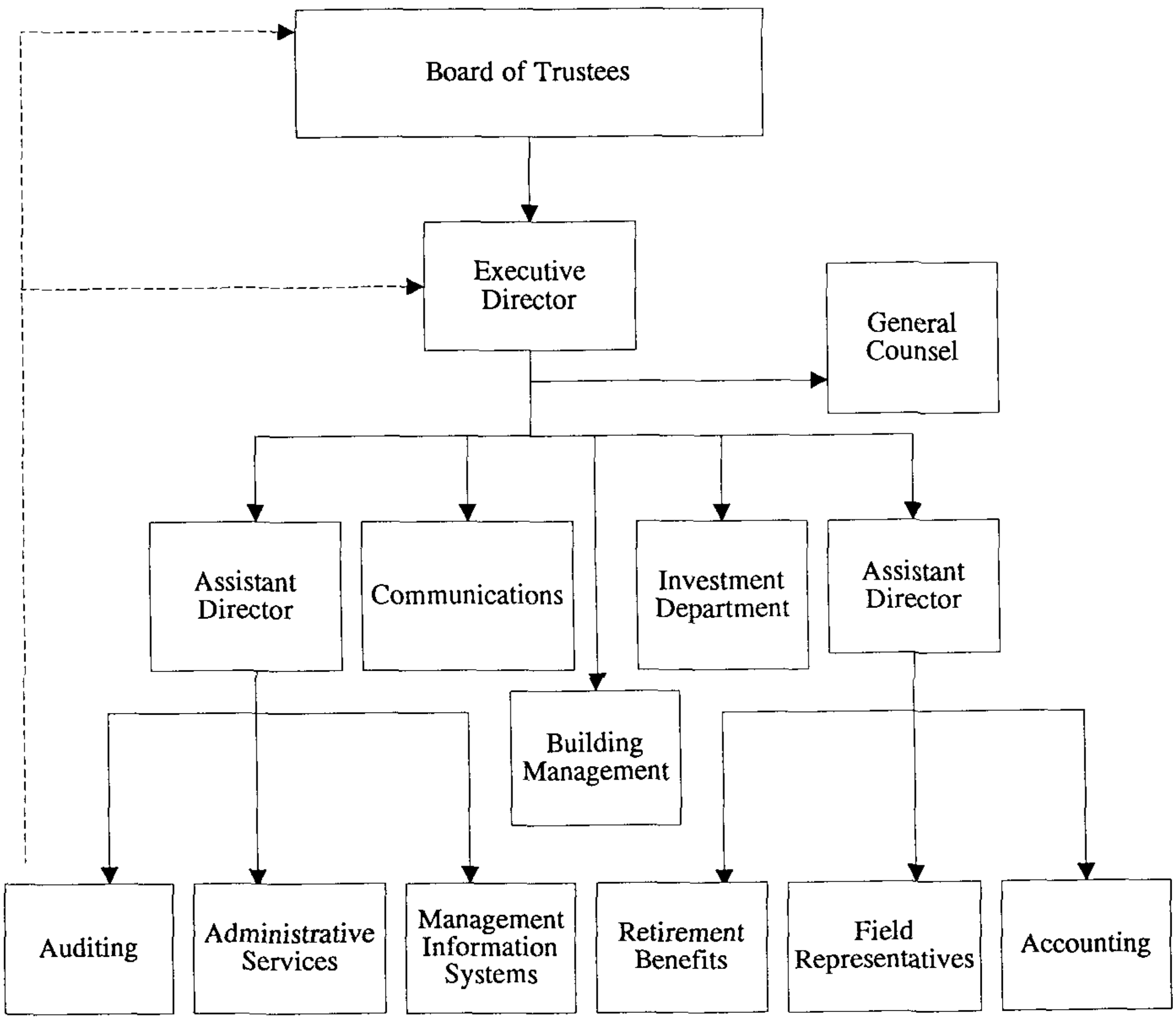
	Washington	West Virginia	Wisconsin
Fixed Income Managers			
Largest fixed income manager	N/A	$315,293,000	$123,000,000
Fees paid	N/A	$144,615	$450,000
Commission	N/A	$0	$0
Second largest fixed income manager	N/A	$1,613,178,000	$113,000,000
Fees paid	N/A	$348,328	$380,000
Commission paid	N/A	$0	$0
Third largest fixed income manager	N/A	$71,167,000	$95,000,000
Fees paid	N/A	$62,018	$370,000
Commission paid	N/A	$0	$0
Other fixed income managers combined	N/A	N/A	$172,000,000
Fees paid	N/A	N/A	$660,000
Commission paid	N/A	N/A	$0
Total managed by fixed income managers	N/A	$1,999,638,000	$503,000,000
Fees paid	N/A	$554,961	$1,860,000
Commissions paid	N/A	N/A	$0
Equity Managers			
Largest equity manager	$5,933,200,000	N/A	$255,000,000
Fees paid	$2,512,506	N/A	$1,180,000
Commission	$0	N/A	$0
Second largest equity manager	$304,900,000	N/A	$303,000,000
Fees paid	$0	N/A	$1,150,000
Commission paid	$0	N/A	$0
Third largest equity manager	$250,800,000	N/A	$141,000,000
Fees paid	$0	N/A	$690,000
Commission paid	$0	N/A	$0
Other equity managers combined	$795,300,000	N/A	N/A
Fees paid	$5,616,500	N/A	N/A
Commission paid	$0	N/A	N/A
Total managed by equity managers	$7,284,200,000	N/A	$699,000,000
Fees paid to equity managers	$8,129,006	N/A	$3,020,000
Commissions paid to equity managers	$0	N/A	$0
Notes:		For fiscal year 1993	Information as of 12/31/92

Appendix C

Organization Charts

Teachers' Retirement System of Louisiana

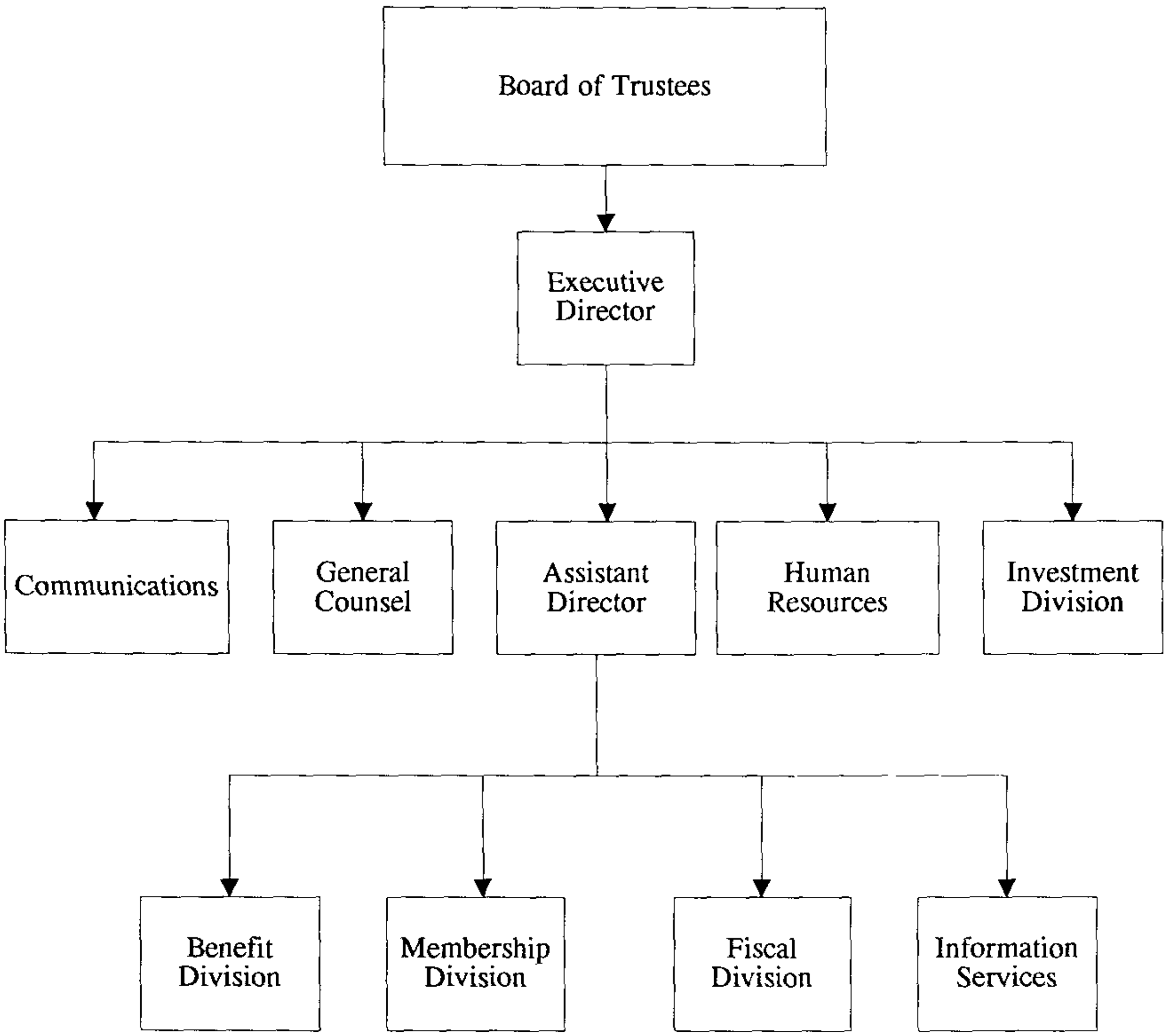
Organization Chart
As of June 30, 1993



Source: Prepared by Legislative Auditor's staff from organization charts provided by Teachers' Retirement System of Louisiana.

Louisiana State Employees' Retirement System

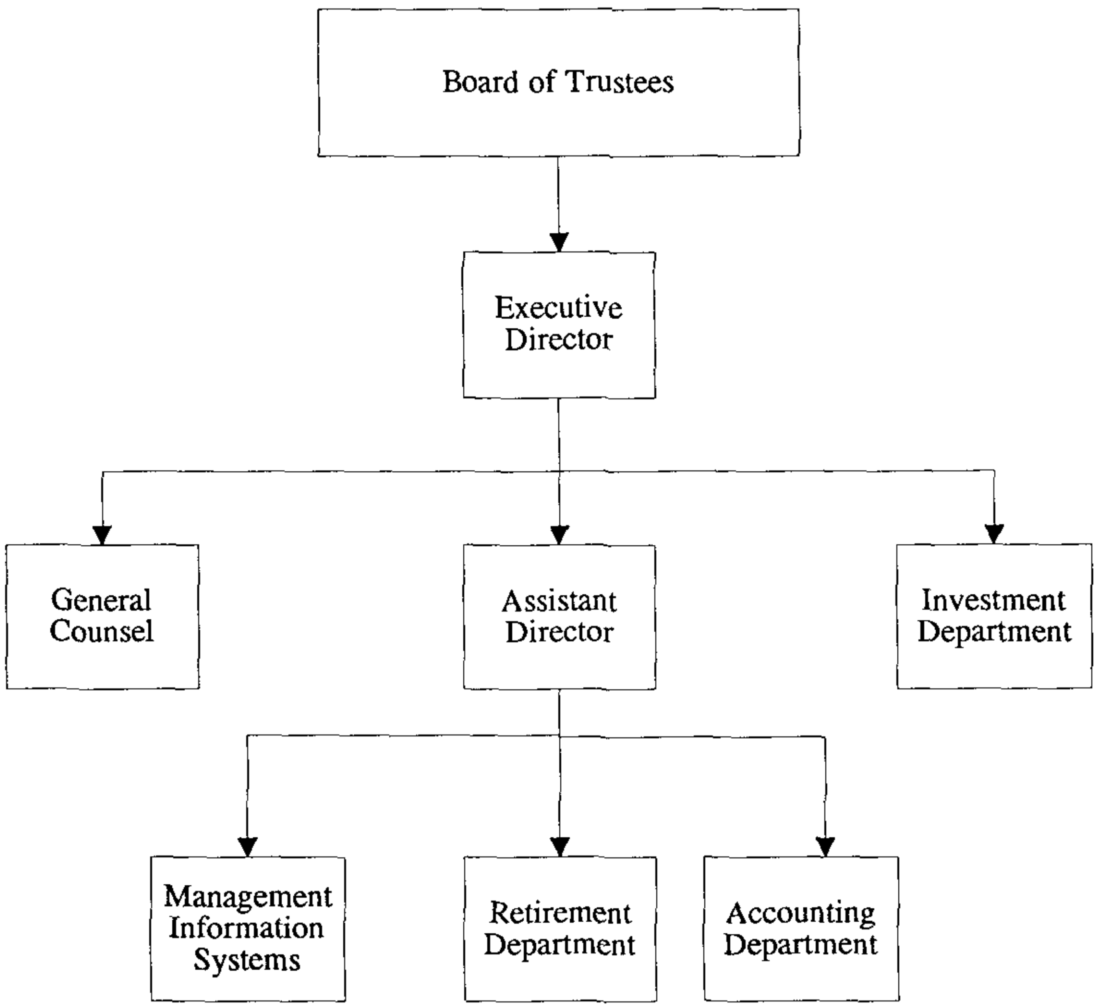
Organization Chart
As of June 30, 1993



Source: Prepared by Legislative Auditor's Staff from organization chart provided by Louisiana State Employees' Retirement System.

Louisiana School Employees' Retirement System

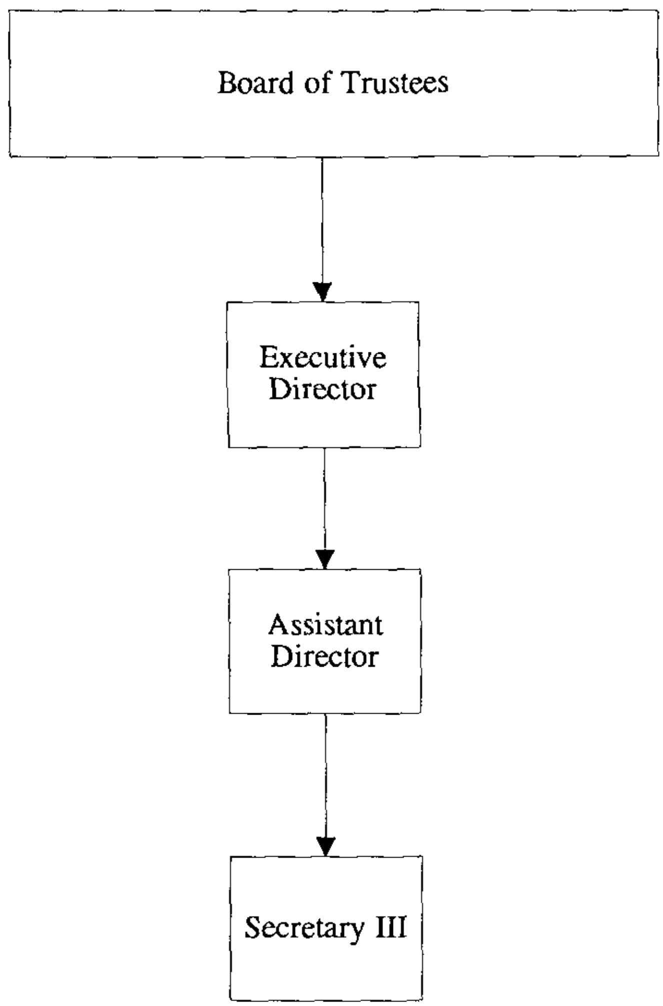
Organization Chart
As of June 30, 1993



Source: Prepared by Legislative Auditor's staff from organization chart provided by Louisiana School Employees' Retirement System.

State Police Pension and Retirement System

Organizaton Chart
As of June 30, 1993



Source: Prepared by Legislative Auditor's staff from organization chart provided by State Police Pension and Retirement System

Appendix D

Retirement Systems' Responses

Response from
Teachers' Retirement System
of Louisiana

TEACHERS' RETIREMENT SYSTEM OF LOUISIANA
8401 United Plaza Boulevard • 70809
P.O. Box 94123
Baton Rouge, Louisiana 70804-9123

December 17, 1993

Mr. Daniel G. Kyle, PH.D., CPA
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This letter constitutes the Teachers' Retirement System of Louisiana's formal response to the draft of the Consolidation of Administration of *Louisiana's State Retirement Systems Study* forwarded by Mr. Greer's letter of December 6, 1993. The comments provided herein were verbally discussed with Mr. Rakesh Mohan and his staff at the exit conference on December 16, 1993. We appreciate the opportunity to address the contents of this study both with the audit staff and by this letter.

The following comments are meant to reflect the system's view of the data presented in the study and are not intended in any manner to reflect upon the capabilities of the audit team.

In general, the draft study is much less comprehensive than hoped for, but about what was expected because of the major limitations and methodology flaws presented below:

1. The audit limitations reflected on pages 6 and 7 of the study, especially the absence of an attempt to provide and compare rates-of-return on investments and the absence of an attempt to provide a basis of validating (justifying) the administrative and/or investment expenses of Louisiana retirement systems.

2. The supposition that since state law does not mandate investment knowledge, members of the respective Boards of Trustees therefore may not be knowledgeable. This supposition has no basis for validation as the performance of the Boards and the results from that performance were not addressed.

Telephone: 504-925-6446 • Fax: 504-925-6366 • TDD: 504-925-3653
Please include member's social security number with all correspondence

3. The absence of data or cost methodology to support the numerous economic savings alleged to exist in selected activity consolidations. Equally of concern is the absence of any definitive attempt to ascertain the added cost associated with consolidations of functions - i.e. computer, executive staff, etc.

4. The selective process used to determine which out-of-state retirement systems would be used to compare costs with the costs of Louisiana systems. No attempt was made to provide a rationale for cost variances nor was there any recognizable sampling technique identified to support the choice of the comparable systems.

5. The structure of the survey forms used to obtain data from the professional money managers, consultants and state systems appears designed to solicit responses supportive of a predetermined conclusion.

6. The comparison of investment expenses between in-house managers and professional contract managers, is like comparing apples and oranges.

7. The use of membership size as the criteria of comparability, thereby ignoring the complexities of different benefit structures, asset allocations, size of investment portfolios and finally the multitude of investment strategies.

8. The apparent disregard for membership interest as reflected in the composition of the optional Board of Trustees as shown on page 15 of the Draft Study. Of the 11 Board positions, 2 would probably represent the membership interest of over 200,000 people.

9. The misrepresentation contained in the study that the legislature currently does not have oversight capability or authority. This is a misleading statement as the legislature has representation on all Boards of Trustees, as well as access to system information through the retirement committees of the House and Senate.

In conclusion, it is my opinion that the study was an exercise in gathering and interpreting data to support, not develop, a conclusion. The time restraints placed on the audit team, the limited investment expertise available on the team, the selective use of data to facilitate easily generated conclusions, the continual use of non-supportable conclusions and the absence of any attempt to provide a cost benefits relationship - i.e. "penny-wise and pound foolish", all lead me to believe the study is critically flawed. Any attempt to use the contents of this study to reach a decision on consolidation of retirement systems would be a disservice to the State, the legislature and the members of the four state retirement systems.

Sincerely,

James P. Hadley, Jr.
Director

JPH/rb

Response from
Louisiana State Employees'
Retirement System

LASERS Louisiana State Employees' Retirement System

December 20, 1993

Mr. Daniel G. Kyle, Ph.D., CPA
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

We appreciate the opportunity to respond to the findings of the study of the Consolidation of Administration of Louisiana's Four State Retirement Systems.

The issues and concerns addressed in this letter have been discussed with your staff during an exit conference held on December 17. Our staffs have had a good working relationship and our concerns with the report do not reflect on the abilities of your staff. There are many complex issues which need to be reviewed in detail before any comprehensive conclusions can be reached or any recommendations for change can be determined.

It is our belief that the study is seriously flawed in the coverage given to the complex issues of retirement administration and investments, in the relevance of the comparisons made to other states without a comprehensive study of the other systems, in the validity of the ratios used, in the verification of the data used to reach conclusions and recommendations, and in the lack of a cost/benefit analysis of recommended changes.

Some of our major concerns are as follows:

1. Major issues which must be considered in any comprehensive study such as the benefit structure, the services provided, the quality of these services, the investment policies, the investment rate of return, actuarial funding requirements, and asset allocation were omitted from this study.

2. The questionnaires used to gather information were very limited in the information requested, and the responses were not verified or analyzed. From the limited data provided, broad generalizations and conclusions were drawn. For example, one current custodial bank indicated that they could handle the portfolio of a combined

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system with a reduction in fees. In fact, this same bank declined to submit a bid in our current search for a single custodian for LASERS. Additionally, answers provided by many investment managers appear to be based on their published fee schedules rather than on their current contracts which include negotiated fees and favored-nations clauses.

3. There was no methodology or rationale given to support the selection of the states used for comparison. There was no comprehensive review of the selected states to determine if they are a desirable model. For example, one state selected has a defined contribution plan which is a totally different structure from the Louisiana plans.

4. The report recommends or implies that consolidation of administration and investments would reduce overall costs; however, no supporting documentation or cost/benefit analysis is provided. The impact of consolidation on the employer contribution of all agencies was not considered.

5. The recommendations concerning consolidation of administration and those for investments are not compatible. The asset allocation for investments is dependent upon the funding requirements and liabilities of the plan.

6. Significant staff reductions were recommended without desk audits to verify workloads or review quality of services provided.

7. The assets of a system are greatly affected by the benefit structure and the funding level. Using this figure in a ratio does not provide a valid comparison of systems.

8. The report implies that trustees have no investment knowledge because it is not a mandated requirement for trustees. Trustees receive specific investment training, board terms are staggered to ensure continuity, and investment professionals are hired as consultants and managers. Without a review of investment policies and investment return the conclusion cannot be supported.

9. The retirement system is a trust fund for the exclusive benefit of members and retirees. The proposed board composition would change the board from a majority elected by members and retirees to almost three-fourths political appointees or elected officials. There would be no assurance that these political appointees or elected officials would have investment knowledge.

Comprehensive changes in the retirement systems will have a major impact on the state, on other governmental entities such as school districts, and on the more than 240,000 members and retirees. The issues are complex and must be adequately reviewed with all costs, savings, and benefits identified and analyzed before any recommendations are made.

Sincerely,

Glenda C Randall

Glenda C. Randall
Acting Director

Response from Louisiana School Employees' Retirement System

State of Louisiana

SCHOOL EMPLOYEES' RETIREMENT SYSTEM

P.O. BOX 44516
BATON ROUGE, LOUISIANA 70804-4516
Telephone: (504) 925-6484
Fax: (504) 922-0350

PATRICK COSPER
DIRECTOR

DEBRA H. DUDLEY
ASSISTANT DIRECTOR

December 17, 1993

Daniel G. Kyle, PH.D., CPA
Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Response to Preliminary Draft on Proposal to Consolidate the Administrations of the Four State Retirement Systems

Dear Dr. Kyle:

Your request for a written response to the preliminary draft of the study of the Consolidation of the Administration of Louisiana's Four State Retirement Systems is enclosed. I must state for the record that it is very difficult to respond appropriately, within a period of less than ten days as you requested, to a very detailed, lengthy study that took three months to compile.

It appears that the audit team attempted to conduct, within a very limited amount of time, an objective study of the cost savings that could be realized by consolidating the administrations of the four state retirement systems. The audit team had to first, learn and understand the inner workings of each of the four systems. This in and of itself took a considerable amount of time and effort. Secondly, the study itself contains limitations that indicate the study considered cost savings in the area of the administration of the systems without any regard for the differences that might have existed between the services provided by and the number and types of benefits provided by the four Louisiana systems and the systems from the other states used as comparisons.

This study excludes investment management fees from administrative cost and thereby skews the correlation. Factoring those cost back into the administration of the consolidated systems used as comparables, reflects that Louisiana's four separate systems operate more efficiently.

The exclusion of the investment returns of the systems used as comparables in this study was a major defect in the procedures used, which we feel, fails to give the total picture with respect to the administrative cost of the retirement systems. Some of the consolidated systems used as comparables in the study have suffered multi-million dollar losses within the last few years which have cost both the members and the states assets from their funds. Iowa, for example, has suffered a $100 million loss in real estate investments, but the study shows that this consolidated system has one of the lowest administrative cost at $14 per member. Maryland, another comparable state, which has had an annualized 13% rate of return over the last four years, has suffered a $60 million loss in real estate. Washington State Public Employees Retirement which has $19 billion in assets had a rate of return of 11.7%, but suffered a $130 million loss in real estate.

These losses far offset any comparable savings in administrative cost, however, this is not the only area that is omitted from the study. Other areas such as benefit structures and the number of such structures in each consolidated system, which directly affect the number of employees needed in a system to process benefits, affects the administrative cost. Also, the types of additional services provided to the membership such as newsletters, pre-retirement seminars, payment of insurance premiums for retirees, the deferred retirement option program, etc., also affect the total administrative cost of the systems. The failure to include whether these services were components of the comparable systems used in this study does not provide us with relevant information necessary to determine if these comparable systems were truly comparable.

Response to Chapter One: Introduction

1. In the introduction, on page 1, paragraph 2, it is stated that "At present in Louisiana, neither state laws nor board policies require state retirement board members to have any investment knowledge or experience". That is not correct when you consider the provisions of R.S. 11:263. This statute requires that every fiduciary or member of the board of trustees of a retirement system abide by the prudent-man rule. This requires these persons to "act with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." While it is admitted that most board members do not have degrees in finance, the boards go through lengthy procedures to hire professionals in financial matters to assist them in making financial

decisions. Knowledge and experience is gained from these experts who provide educational training in the field of investments and assist in the selection of investment managers to invest the systems assets.

2. On page 1, paragraph 3, it is inferred that the oversight of these systems would be improved through consolidation of the four systems. The Legislature and the ex-officios who sit on these boards should provide some oversight of the boards of trustees. You state that there are too many meetings for the elected officials to attend, however you fail to consider the fact that public officials are permitted to authorize designees to attend these board meetings. This is precisely what the Treasurer's office, the House Retirement Committee, the Senate Finance Committee, and the Secretary of State's office does when there are conflicting meeting dates, additionally, different designees are assigned to different retirement systems. Also, the Legislature has the prerogative of calling Legislative Committee meetings at any time to review the administrative costs and investment practices of any or all four of the systems at any time. It has not chosen to do so in the last several years.

3. On page 1, paragraph 3, it is concluded that a consolidated board could represent the memberships of the four systems, as well as state officials. As reflected on page 15 of your study, detailing an optional makeup for a new board, only two to four of the eleven trustees are to be selected from the active membership of the four retirement systems. There is no indication of whether one member would come from each of the current systems, or if it would be an open selection process. It is quite obvious from the composition of the new board, that the controlling factor in the decision making process for the investment of assets would shift from the members of the system to the governmental side of the equation.

   It is also stated that at least two board members should have investment knowledge or experience. This appears to contradict the current statutes which require that all board members must possess knowledge and experience.

4. On page 1, paragraph 5, you emphasize that a consolidation of the four state retirement systems would "significantly" reduce management and staff, as well as administrative expenses, yet throughout your study you readily admit exclusion of pertinent data on dollar savings that would justify that strong a term. Referring to page 6, Audit Limitations, it is stated, "Furthermore, because of time constraints, the audit did not address the following issues: quality of services provided to members, or whether the systems' administrative expenses are justified. Audit limitations will be addressed later in this response.

   In the same paragraph reference is made to termination pay and then there is reference to cost for staff training. Training of who, new employees? If employee training is for the remaining employees, the workload of the former employees when added to the workload of the remaining employees will shorten the time available for the remaining personnel to complete their ordinary workload much less their additional job assignments. When will the training occur?

   Example: If retirement analysts in two systems are processing 20 cases per day, and one position is eliminated, will the remaining analyst have to process 40 per day. Will the quality of service to the members be the same as was previously being provided? There is no supportive data to show a study of man-hour needs to promote this recommendation.

5. On page 2, paragraph 2, the study states that no estimate of overall savings could be made regarding the pooling of assets of the systems for investment purposes, since the consolidated investment policy for the consolidated systems is not established.

6. On page 5, reference is made to the fact that surveys were sent to 32 of the 50 states. From the responses, there were only 18 usable responses. There is no indication of what was a usable response as compared to what was not a usable response. Of the 18 usable responses, 6 of the states responding had a totally consolidated system. That would indicate that the recommendations contained in the study were based on six out of fifty states.

Reference is made to the fact that the states used in the comparisons in this study are consolidated systems that are similar to what would be the resulting consolidated administration of the four state systems.

7. On page 6, a broad array of areas are listed that were omitted from this study under the section entitled "Audit Limitations".

The study excluded the retirement systems rates of return on investments. The primary objective of these systems is to provide benefits to the systems members during their lifetimes and during the lifetimes of their beneficiaries. This is accomplished by achieving a rate of return on the investments of the systems that at least equal the actuarially assumed rate of interest on which the projected benefit payouts are based. Any additional return reduces the unfunded accrued liability or adds to the system surplus. To not compare rates of return in the various states fails to show a true comparison of the system operations.

The study did not address an implementation schedule for identified areas of consolidation. There is nothing more than a recommendation to consolidate all four systems.

The study did not address the effect on quality of services to members. This is an area that is paramount to all active and retired members of these systems. To risk a reduction in the quality of service provided to members and retirees of the systems would solicit a wave of criticism of the individuals that endorse this recommendation.

The study did not address whether the system's administrative expenses are justifiable. The goal of all four systems is to minimize the administrative costs and maximize the benefits and services to the members. If all four systems have justifiable reasons for their current administrative costs, are they then not performing good business practices. The Legislature knows full well when a constituent has a complaint about the services of a retirement system. If you reduce the services currently provided, the Legislature will know.

The study did not address an audit of the current electronic data processing controls of the various systems. These are an integral part and function of these systems. They have been painstakingly programmed to meet the many and diversified needs of the four systems. To replace them with a larger consolidated system would certainly incur a large expenditure for hardware, software programs, and expensive consultants to program the new consolidated system.

Response to Chapter Two: Policymaking

1. On page 8, paragraph 1, the study makes reference to the fact that the state has little oversight of these systems. It must be remembered that ex-officio members who are state officials serve on each of these state retirement systems. Additionally, the Legislature has the authority at any time to form a committee to study the administrative expenses of the systems, as well as rates of return, or any other matter that it wishes to study.

2. On page 8, paragraph 2, it is again stated that there is no requirement that board members have any investment experience. I refer you to Section 1 of our response to Chapter 1.

3. On page 8, paragraph 3, the point is stressed that the oversight of the retirement systems would improve if the four systems were consolidated. There is no data shown that would appear to support this statement. This conclusion would require the comparison of consolidated systems against systems that were not consolidated.

4. On page 10, paragraph 1, it is again stated that no state law or board policies require board member to have any investment experience. See the responses to the same issue contained in Section 1, Chapter 1.

5. The study states that the State Treasurer has only a limited role in the administration of the four state retirement systems. According to state law, the retirement systems are to be administered by a board of trustees. The state treasurer is a member of the various boards of trustees, having an equal voice on the board, but not

being the sole administrator of the four state retirement systems. The treasurer as a trustee, and by virtue of that fact, has an active role in the decisions regarding the actual administrative expenditures of each system and the choosing of consultants, investment managers, custodial banks, and securities lenders. The State Treasurer is empowered by state law to approve all contracts of the four state retirement systems. That in and of itself allows the treasurer tremendous authority to regulate all investment contracts as a sole individual.

Response to Chapter Three: Administration

1. On page 17, paragraph 2, this study indicates that the combined administrative expenses of the four state retirement systems in fiscal year 1992 was $8.4 million, or $35 per member. The indicated average administrative expense of the six chosen comparable states was $28 per member. If all eighteen of the states responding to the survey (Appendix B) were chosen for the comparison, the resulting average would be $33 per member. This would show that the four state systems are much closer to the national average of consolidated systems than the survey indicates. If you factor into the comparison the investment management fees of these consolidated systems, the total administrative cost exceeds the average of our four state systems.

2. On page 17, paragraph 3, the study indicates that a savings of between $1.5 to $1.8 million in salaries and related benefits could be had by consolidation of the four state retirement systems. There are no figures in this report to reflect which salaries and related benefits would be cut to achieve this amount of savings.

3. On page 18, paragraph 3, it is alleged that the new consolidated administration for the four state retirement systems could operate after a one-third reduction in upper management positions. Under the proposed consolidation, supervisory positions would require higher reallocations to justify the increased number of non-management personnel under their supervision. These supervisory positions are usually based on the number of employees for which a supervisor is responsible. There is the possibility that the number of non-management personnel could require additional middle management positions due to the increased work load of a

consolidated administration. Additionally, the reduction in personnel due to the consolidated administration could reduce the effectiveness of operation of the four state retirement systems due to a loss of expertise which could effect the quality of services provided to members and retirees.

4. On page 18, the section entitled "All Four State Retirement Systems Provide Basically the Same Membership Services" is in and of itself testifying to the fact that there are some distinct differences between the systems. Some systems are tax sheltered, while some are not. Some systems are fully funded, while some are not. Therefore the required allocation of investments due to the various funding requirements of the four state systems are different. Additionally, the benefit structures of the four state systems are quite different, with some systems having multiple benefit structures contained within them. While this study indicates that these issues were not considered, these important issues must in fact be considered prior to any consolidation of administrations.

5. On page 20, the section entitled "Louisiana's Four Systems Combined Spent More in Administrative Expenses than the Average of Six Membership-Comparable Systems in Other States", provides only some of the methods used for the comparison of the administrative costs in various public retirement systems. A commonly used survey method for comparison of administrative costs of retirement systems is based upon taking the total administrative cost as a percentage of the total assets of the individual fund. Those surveys generally include investment expenses within the administrative cost, which your figures admittedly exclude. These figures are then compared to produce national averages, as well as, regional averages. To compare administrative cost based upon a per member cost can be very misleading, as the services provided by the various system be quite different. If the comparative systems are not providing the same level of service, then additional cost of personnel and equipment may be required and justified.

   Another pertinent factor regarding staffing is that some of the comparative states use in-house investment management for a large portion of their assets. The four Louisiana systems use outside managers to manage their system's assets. In-house investment may reduces overall costs, however, it may also increase the risk associated with lack of diversification in investment of assets.

This study appears to make the assumption that the size of the assets held by the various retirement systems dictates the size of staff needed to operate the system. Yet in the same context it doesn't take into account the diversification of the investment of assets, the method of brokerage used, the number of investment advisors, or percentage of funds invested in-house.

The report includes a comparison of the investment expenses of five consolidated systems' in relation to assets managed. Only one of the five systems used in the comparison, Iowa, utilizes 100% outside investment managers. Your study clearly indicates that Louisiana's four separate systems paid 45% less than Iowa's consolidated system paid for investment management services.

The other states used in the comparison have a significant percentage of assets invested through in-house investment managers. This may well account for their lower investment expenses, but to use only this as a comparison, and not consider the rate of return earned on the investments can lead to a dangerous conclusion. The combined assets of the Louisiana systems for fiscal year 1992 were $8,824,441,000. If the Louisiana systems' rate of return exceeded those of the systems using in-house investment personnel by only one-half percent, this translates into $44,122,205.

Louisiana's combined systems spend $12.6 million for investment expenses, compared to the systems in the study, whose average expenditures were $10.6 million, a difference of $2 million. Considering the fact that a mere one-half percent increase in the return rate on $8 billion equals $44 million, it would appear prudent to have included rates of return in a report such as this before making the assumption that Louisiana could save money by consolidating the four systems and utilizing in house managers.

This study readily admits it has no method of computing the actual cost associated with consolidation of the administration of the four state retirement systems. It acknowledges that there would be a cost, but fails to determine whether this would be a one time cost or a continuing expense. This unknown cost could very well offset any gains achieved through consolidation of the administration of these systems.

Sincerely,

Patrick Cosper

Patrick Cosper
Director

Response from
State Police Pension and
Retirement System

Louisiana State Police Retirement System

December 14, 1993

Mr. David K. Greer
Director of Performance Audit
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, La. 70804

Re: Response to Draft on
Performance Audit

Dear Mr. Greer:

I have read with interest the draft that has been assembled by your staff on your study of the Consolidation of Administration of Louisiana's Four State Retirement Systems. My initial reaction to the draft was that it directed itself more to the investment side than to the administration side of the systems, but I will list areas of concern that I have with the study.

a. The study indicates that a new consolidated board could represent the memberships of the current four systems and state officials. In reality your study recommends having a few as two members from the membership of all the systems on the board, with the remaining members being appointed or ex-officio. In this scenario, I feel that the State Police System would have no representation.

b. The study indicates that there are no board members on any of the boards with any investment knowledge or experience. In reality the treasures' office has a representative on each board and each board has a financial consultant to educate the board members and to give advice on any matter that relates to investment.

c. The study indicates that the State Treasures' Office has only a limited role in the administration of the four State Systems. Other than having a member on each board to oversee the overall operations there is no requirement or any reason to believe that the treasures' office could offer any expertise in the area of administration that is not already available at the level of the four State Systems.

d. The study indicates that the four State Systems spent twice the average in investment expense. The study does not differentiate between the management of stocks and bonds, active or passive management, nor the rate

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of returns on investments over a period of time.

e. The study did not address the quality of services provided to members. An important issue as it pertains to membership.

f. The study indicates that consolidating the boards would result in fewer meetings and **could** increase ex-officio members attendance. In reality most ex-officio members send designees to the meetings and have different designees for each board. A consolidated board would have to meet for a longer period of time to handle the business of all the separate boards.

g. The study indicates that all Four Systems provide basically the same membership services. That is true, but with different requirements for retirement for each system, the calculation of benefits is different and therefore would require additional personnel.

h. The study indicates that the Four State Systems currently do not coordinate their daily functions. True - There is little to coordinate on a day to day basis between the systems.

i. The study indicates that consolidation may require new data processing equipment. In fact it would require a completely new system at a substantial cost.

j. The study indicates that from a survey taken from the seven custodians serving the retirement systems for fiscal year 1994, four said that they would lower their variable fees to secure business with the consolidated system. The study does not indicate whether the custodians responding favorably are able to handle all aspects of custodial requirements. Three of the seven would not lower their fees indicating that the systems have negotiated a low fee.

k. The study indicates that for a consolidated retirement system, only one investment consultant would be necessary giving an estimated savings of between $123,714 and $267,714. One investment consultant would not be capable of handling all aspects of a system as large as the consolidated system would be. We need diversification and one consultant would not accomplish that need.

l. The study indicates that twenty-two of the 47 investment managers responding to your survey said that they would decrease their fees if they were given additional assets to manage. 25 managers would not decrease their fees and that represents more than 50%.

m. The study indicates that nearly half of the states responding to your survey have in-house managers. More than half of the states do not have in house managers.

From the above examples that have been listed, you can see that I have doubts about the conclusion that you have reached on consolidation of the four State Systems. Your study can be used to build a strong case for not consolidating the four State Systems.

There may be areas that can be addressed for savings, but consolidation for the purpose of saving money and providing the same services that members now receive is not the answer.

I trust that I have responded to your satisfaction on the draft of the Consolidation of Administration of Louisiana's Four State Retirement Systems in a complete manner. If additional information is needed, please let me know.

Sincerely,

Walter W. Smith

Walter W. Smith
Director