

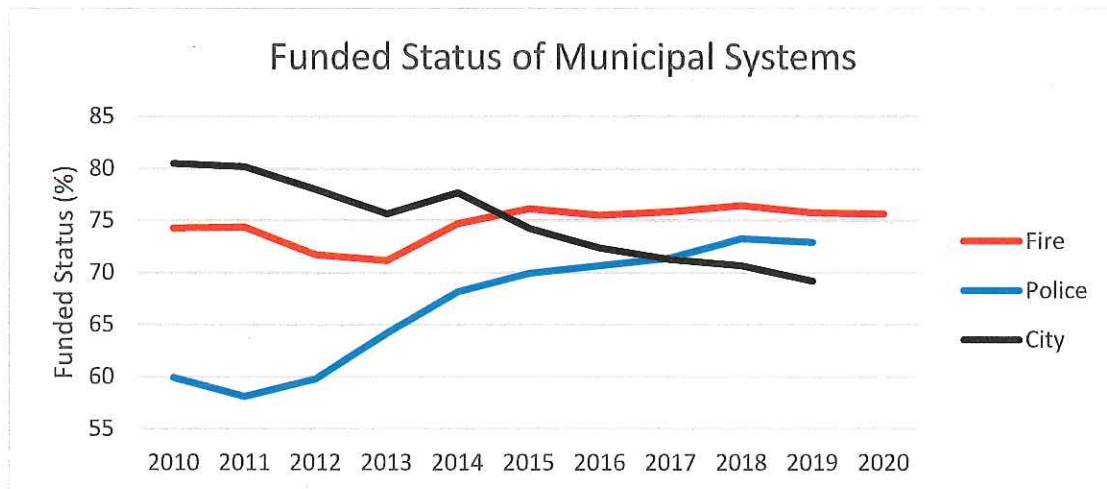
FIREFIGHTERS' RETIREMENT SYSTEM INFORMATION SHEET

- Q. What is the current funded status of FRS?
- A. FRS' funded level is 75.63% as of 06/30/2020. FRS' funded rate has remained level for the last ten years. FRS is currently only 7/10ths of 1% lower than its high point in the last 10 years. That is a sign of financial stability. It is true that 30-years ago, FRS was 100% funded. However, over the course of that same period, mergers, legislation, benefit enhancements, and history-making capital market collapses have occurred. The chart below shows the system's funding bottoming out in 2013 (71.13%) and then slowly increasing (75.63%) over the decade. Key financial indicators appear to show the increase continuing. FRS continues to be the best funded of the three municipal systems. Please see the chart below comparing FRS to the police and the city workers retirement systems.
- Q. Who is Fitch Ratings Inc. and how do they rate a retirement system funded at 75.63?
- A. Fitch Ratings Inc. is an American credit rating agency and is one of the "Big Three credit rating agencies", the other two being Moody's and Standard & Poor's. It is one of the three nationally recognized statistical rating organizations designated by the U.S. Securities and Exchange Commission in 1975. According to the Fitch report, *Enhancing the Analysis of the U.S. State and Local Government Pension Obligations*, Fitch Ratings considers a funded ratio of 70% to be adequate. According to that standard, the chart below shows that FRS is adequately funded and has been for at least the last ten years.

FUNDED STATUS (%)											
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Fire	75.63	75.72	76.4	75.82	75.48	76.09	74.66	71.13	71.66	74.33	74.21
Police	U	72.89	73.23	71.39	70.64	69.91	68.11	64.15	59.75	58.05	59.87
City	U	69.17	70.65	71.26	72.38	74.21	77.64	75.64	77.94	80.13	80.43

Fire=Firefighters' Retirement System
 Police=Municipal Police Employees Retirement System
 City=Municipal Employees Retirement System A

Source: Actuarial Valuation As Of June 30, 2019

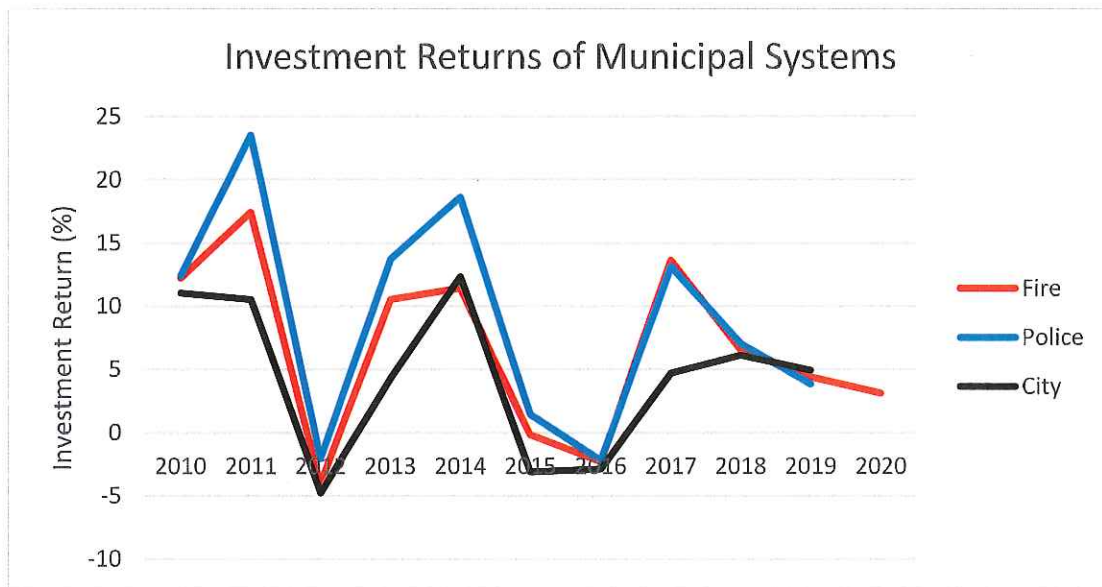


- Q. What are the FRS investment returns?
- A. Please see the chart below showing FRS investment returns for the past 10 years.
- Q. How do the FRS returns compare to its peer retirement systems?
- A. Please see the chart below comparing FRS to the police and city workers' systems.
- Q. Why do my investment returns sometimes do better than FRS?
- A. As a public retirement system, according to law, FRS has many investing restrictions that do not apply to private investors. For example, for safety purposes, FRS (and all other governmental pension plans) is required to diversify its portfolio across several types of investments. In contrast, many private investors have their money concentrated in fewer types of investments, i.e., stocks or bonds. When the stock market is soaring, FRS only enjoys part of that upswing. When the upswing is averaged with all of FRS' other holdings, the overall average return is affected. For that same reason, the investment returns of the municipal plans usually track each other closely.

INVESTMENT RETURNS (%)											
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Fire	3.1	4.4	6.5	13.6	-2.3	-0.2	11.4	10.5	-4.1	17.4	12.2
Police	U	3.8	7	13.1	-2.2	1.4	18.6	13.7	-2.1	23.5	12.4
City	U	4.9	6.1	4.7	-2.9	-3.1	12.3	4.3	-4.8	10.5	11

Fire=Firefighters' Retirement System Police=Municipal Police Employees Retirement System City=Municipal Employees Retirement System A

Source: Actuarial Valuation As Of June 30, 2019



- Q. What is the employer contribution rate and how does it compare to other retirement systems?
- A. Please see the chart below showing the FRS employer contribution rate compared to the police and city workers' systems.

Q. Why does the employer rate keep going up, is the system being mismanaged?

A. The rate is going up, but it is definitely not due to mismanagement. If FRS were the only system with increasing rates, it might be easier to question management. However, the contributions of almost every governmental pension plan across the country are experiencing the same phenomenon, including our peer systems here in Louisiana. For a study on the subject, I suggest reading the article by Plan Sponsor magazine titled "America's Pension Funding Crisis, The Perfect Storm". There are many more articles available through Google.

Q. Then why are the rates continually increasing?

A. There are many reasons, but several are readily identifiable. For instance, during the 1990's, the investment market was exuberant, the retirement systems were adequately funded, so the legislature passed a series of Acts that eventually proved to be a financial burden to the funding of FRS. All members who benefitted from these laws are deserving of the benefit, but the unforeseen costs snowballed over time. These are a few, but not all, starting with the oldest.

- Act 57, 1991. Changed DROP interest from being used to fund FRS to being paid to FRS members.
- Act 1053, 1992. Granted up to 4 years of free retirement credit for Persian Gulf military service.
- Act 1219, 1997. Changed method of paying COLAs to a compounding method.
- Act 1370, 1999. Allowed Viet Nam veterans to purchase credit for military service by payment of employee contributions only, plus interest. There were no matching employer contributions paid to FRS. Partial refunds were made available to those members who had previously paid full price for the credit. Many retired members were allowed to return to active duty fire service for one-day in order to purchase the discounted military service or receive a refund.
- Act 1160, 2001. Took away from FRS a significant portion (\$millions) of the insurance premium tax fund that the system previously relied on for meeting its funding obligations.
- Two more Acts (Act 1370 of 1999 and Act 1176 of 2001) had the affect of granting 982 years of service credit, the cost of which would be measured in the multiples of tens of millions of dollars. However, the system only received about \$1.5 million in return.

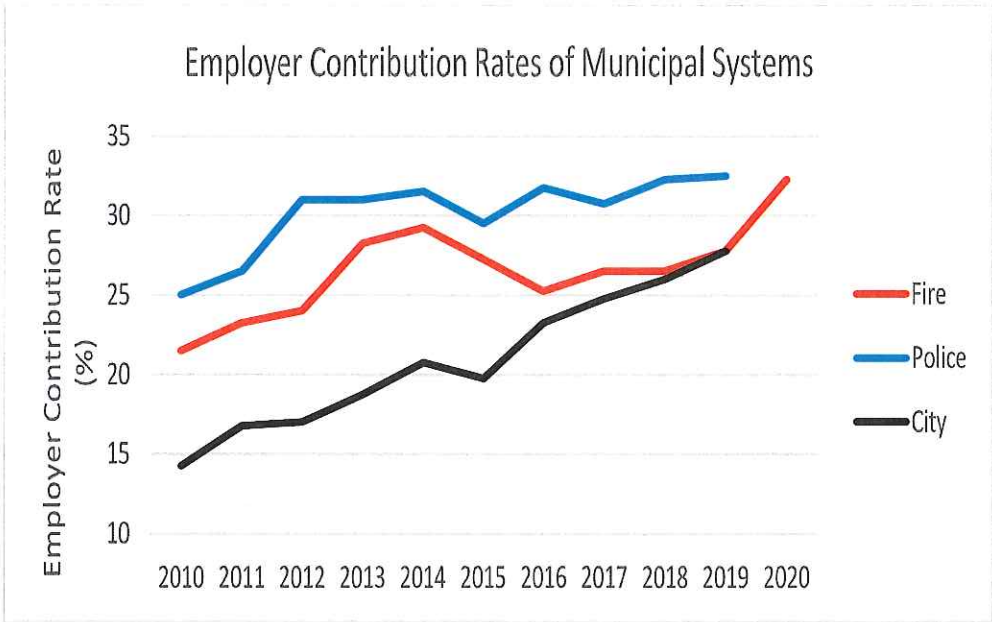
The members who enjoy these benefits were perfectly within their rights to receive them, because they were granted by law. It is now the retirement system's legal and moral obligation to pay the retirement benefits over the lifetime of the members, but the legislature did not provide matching funding to cover the costs.

Following the 2008 market crash and double dip recession, 5 of the system's investments crashed along with the market. The value of those investments were written down to almost zero, having the same affect as a loss. Two of the 5 investments have since collected significant payback resulting from lawsuit judgments. Two others were large real estate

holdings, the value of which crashed along with the 2008 real estate market. FRS wrote those down too, but held on to ownership of the properties. Now, 12 years later, there is a contract of sale pending on one, where a slight profit will be made compared to the original investment cost if the sale goes through. On the other, FRS currently has an LOI from two potential buyers which, if a sale goes through, would also represent a slight profit. However, the initial write down of those investments had a significant impact on FRS' average of investment returns even though money has or is in the process of being recovered.

Lastly, the investment market for institutional investors has changed dramatically. In the past, the system's investment consultant and actuary both said it was safe to assume that FRS would earn at least 7.5% in the long term on its investments (30-year average). Now the system is being told that the assumed rate should be reduced below 7% maybe to 6.5%. The system's actuary said that, if FRS did not begin reducing its assumed rate, then the actuary would refuse to sign-off on the system's annual valuation. In short, that would mean the Legislative Actuary's suggested rate of about 6.5% would go into affect. That is strong medicine. For every one-tenth (0.10) of 1% of reduction, the employer contribution rate goes up about 2%. This was the choice- If the system used its own actuary's recommended rate, then the employer rate would go up by about 10%. If the Legislative Actuary's rate were forced on the system, then the employer rate would go up by about 20%. Faced with the least harsh of two options being forced on the system, the board elected to reduce the assumed rate from 7.5% to 7%, by one-tenth (0.10) increments each year for five years, beginning in 2017 and ending in 2021. That is one reason why the employer rate is going up by at least 2% each year. You'll see that spike upward in the line graph below. The same choice was also forced onto all other Louisiana plans, including police and city workers. That is partly why all plans' employer rates are going up. Please see the chart below showing the employer rate of the three municipal systems. Not shown on the chart are all of the other state and statewide public retirement systems that are experiencing the same phenomenon. As mentioned, there are a multitude of reasons why pension costs are rising, but the foregoing gives you an idea that it is certainly not entirely related to investments. It is more a combination of several factors, some of which are beyond the control of this system.

EMPLOYER CONTRIBUTION RATE (%)											
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Fire	32.25	27.75	26.5	26.5	25.25	27.25	29.25	28.25	24	23.25	21.5
Police	U	32.5	32.25	30.75	31.75	29.5	31.5	31	31	26.5	25
City	U	27.75	26	24.75	23.25	19.75	20.75	18.75	17	16.75	14.25
Fire= Firefighters' Retirement System			Police= Municipal Police Employees Retirement System				City= Municipal Employees Retirement System-A				
Source: Actuarial Valuation As Of June 30, 2019											



A book could literally be written about the science of managing and funding the Firefighters' Retirement System and you might feel like this memo is a book. However, this is the short version. It would take a semester to delve fully into the subject. Please understand that your FRS board and staff all have your best interest at heart and go to work each day with an attitude of protecting your retirement system and making it better where possible. We are available to discuss this with you if you have any questions or would like to talk about your individual retirement account. The FRS office number is (225) 925-4060. We stand ready to serve those who serve.

#