Louisiana Sheriffs' Pension & Relief Fund

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DATE: April 15, 2014

TO: Our Pension Recipients

FROM: Osey McGee, Jr.

SUBJECT: Funding of Cost-of-Living Increases

We are receiving inquiries regarding when our retirees and survivors can hope to receive a cost of living increase to their monthly benefit, and expressing concerns over the difficulty they are encountering in meeting the rising costs over time. We want you to know that we understand those concerns and that the Board of Trustees and staff care deeply about the well being of our retirees. We appreciate your patience as we work to improve conditions and provisions of the law to meet the requirements on a more frequent basis.

The last time the Louisiana Sheriffs' Pension Fund (LSPRF) met the requirements and granted a COLA was January 1, 2008. As most of you are aware, since that time both the U.S. and global economies and markets have experienced one of the worst financial crises since the Great Depression of the 1930's. Disruptions in funding sources such as the severe recession of 2008 – 2009 result in funding problems that normally require a number of years to recover from.

Our Fund has progressed very well in its recovery from the severe recession. As we continue in the recovery, based on current fiscal year to date investment performance, the short-term outlook for the remainder of this fiscal year ending June 30, 2014, and other factors discussed in this memo, the Board of Trustees has reason to be optimistic that we may meet the requirements for a COLA in the coming year or the near term future, as discussed below. With all of the factors and uncertainty involved, there can be no guarantee at this time.

One of the major requirements that has to be met for LSPRF, or any other statewide public pension system, to grant a COLA is the generation of excess investment income over and above its assumed rate of return on an actuarial basis. Earnings that meet the assumed rate of return cannot be used for COLAs, as the assumed rate is a basic funding component in the funding of the Plan. The actuarial rate of return on investments is calculated using a 5-year "smoothing" (similar to averaging) method of gains and/or losses. Consequently, although LSPRF has made great strides in its recovery from the financial crisis, the disastrous years of 2008 and 2009 have continued to affect current actuarial rates

of return. It is due in large part to the fact that we could not meet or exceed our assumed rate of return in the recession years of 2008 – 2009 that LSPRF was unable to grant a COLA at the beginning of 2014.

The very positive news is that, beginning with fiscal year end at June 30, 2014, the worst years of the financial crisis will no longer affect the calculation of LSPRF's actuarial rate of return. This factor, along with continued recovery in the financial markets, several years of favorable returns above the assumed rate since and helpful changes to the laws governing the granting of COLAs (legislation sponsored by LSPRF) make us hopeful that the possibility of granting a COLA has greatly improved. Of course, given the continued uncertainty of the global financial markets, we are unable to determine whether or not the Board can approve a COLA until we reach the fiscal year end at June 30, 2014 and our actuary has completed the annual actuarial valuation of the Fund to determine that we have met the requirements to do so. However, we are encouraged that the chances of our being able to do so are the best they have been since the beginning of the financial crisis in 2008, which was also the last time LSPRF met the requirements to approve a COLA.

In 2011 and other recent years, we have worked to pass legislation that will provide cost savings in the benefits structure and future liabilities of our Plan to protect and enhance the financial soundness of LSPRF, and to provide a better balance between the benefits we are promising new members and the need to assist our retirees with increases on a more frequent basis. In 2013, our Fund successfully sponsored legislation to restructure the provisions of law regulating the granting of COLAs. We are optimistic that these changes will increase our ability to assist our retirees with increases more frequently. That is certainly our goal, but does depend on periods of favorable economic and market conditions.

Please be assured that we will continue our efforts to provide our retirees with more consistent increases. On behalf of the Board of Trustees and staff, we extend our sincere best wishes to you and your families.

Serving Those Who Serve