



January 9, 2025

Board of Trustees
Municipal Employees' Retirement System
7937 Office Park Blvd.
Baton Rouge, Louisiana 70809

Ladies and Gentlemen:

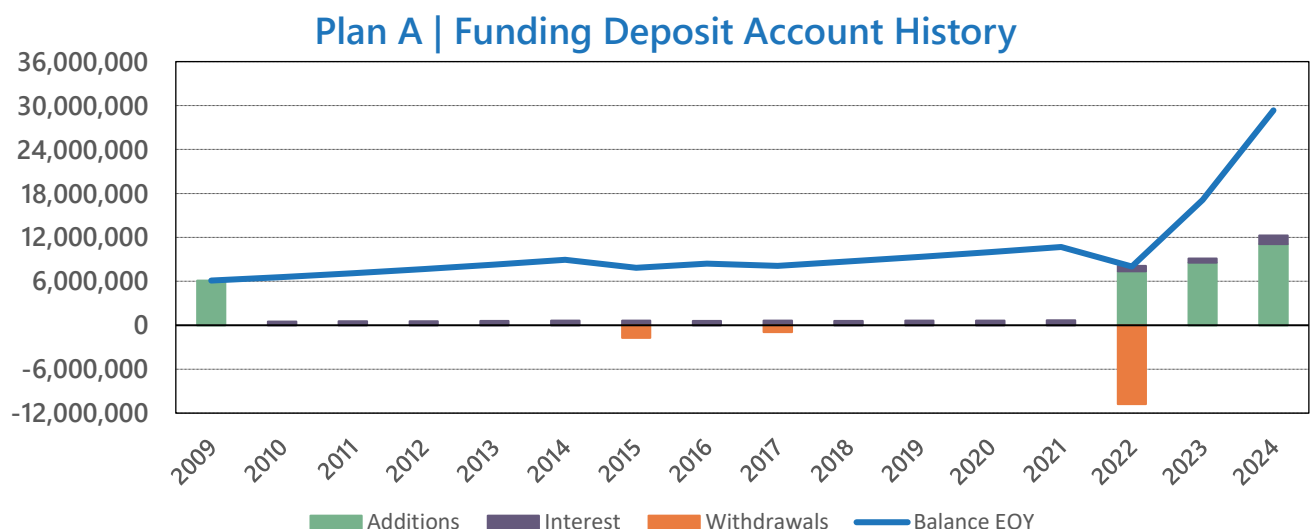
The statutes provide the Board of Trustees with the ability to set the employer contribution rates for Plan A and B above the minimum actuarially determined rate. Any surplus funds collected in years where the rate is set above the minimum are added to the system's Funding Deposit Account.

Plan A Employer Rate Decision

For fiscal 2026 (beginning July 1, 2025), the Board may set the employer contribution rate for Plan A at any level between 23.25% and 28.00%. The employer contribution rate in effect for fiscal 2025 is 28.00%. The following chart provides a recent history of the employer rates:

Year	2020	2021	2022	2023	2024	2025
Minimum ER Rate	27.75%	29.50%	29.25%	28.25%	27.75%	25.25%
Actual ER Rate	27.75%	29.50%	29.50%	29.50%	29.50%	28.00%
Difference	0.00%	0.00%	0.25%	1.25%	1.75%	2.75%
Amount added to FDA	\$0	\$0	\$7,360,583	\$8,547,054	\$11,077,504	Unknown

The following graph shows how the plan arrived at its current Funding Deposit Account balance of \$29,345,895 as of June 30, 2024.

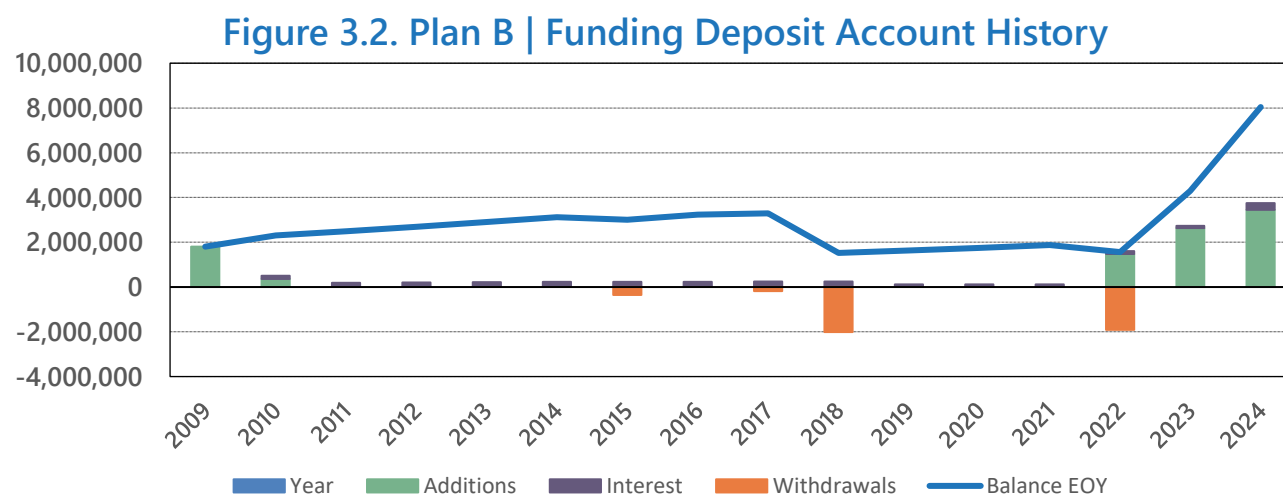


Plan B Employer Rate Decision

For fiscal 2026 (beginning July 1, 2025), the Board may set the employer contribution rate for Plan B at any level between 10.25% and 14.00%. The employer contribution rate in effect for Fiscal 2025 is 14.00%. The following chart provides a recent history of the employer rates:

Year	2020	2021	2022	2023	2024	2025
Minimum ER Rate	13.75%	15.50%	15.25%	14.50%	13.25%	12.50%
Actual ER Rate	14.00%	15.50%	15.50%	15.50%	15.50%	14.00%
Difference	0.25%	0.00%	0.25%	1.00%	2.25%	1.50%
Amount added to FDA	\$0	\$0	\$1,475,806	\$2,629,363	\$3,449,934	Unknown

The following graph shows how the plan arrived at its current Funding Deposit Account balance of \$8,041,291 as of June 30, 2024.



Setting the actual employer contribution rate above the minimum is intended to add excess funds to the system’s two funding deposit accounts. The Funding Deposit Account acts as a “rainy day” fund to offset employer contributions or can be used to prefund future COLAs. The only COLA that has been funded from the Funding Deposit Account was provided on July 1, 2022. Prior to that year, the Board used funds in this account to offset annual employer contributions for Plans A and B (i.e. it was used as a “rainy day” fund) and Plan B used a portion of the account to pay off the system’s frozen unfunded accrued liability in 2018.

The cost of providing a cost-of-living increase to retirees/survivors

If the Board wishes to set aside funds for future COLAs or to build up a “rainy day” balance in case of future cost increases, it would be advisable to set the Fiscal 2026 employer contribution rates above the minimum level. As you consider the decision, it is important to consider the cost

of providing COLAs and to consider what may affect minimum employer contribution rates in the near future.

The following table shows estimated COLA costs as of 2025:

	Fiscal 2024 FDA Balance	2% of original benefit/retired at least 1 year (R.S. 11:1761)	Supplemental COLA – 2% of original benefit and over age 65 (R.S. 11:246)
PLAN A	\$29.3 million	\$14.2 million	\$9.6 million
PLAN B	\$8.0 million	\$2.6 million	\$2.1 million

Both plans currently have enough in their Funding Deposit Account to fund a COLA. Based on the timing of the most recent COLA (July 1, 2022 based on the Fiscal 2021 actuarial valuation) and the frequency limitations in R.S. 11:243, the Board may first grant a COLA effective July 1, 2025.

Estimations of items expected to affect employer rates

Although we are limited in our ability to project future employer costs without a full forecast valuation, we can use recent history to make estimates of the likely impact of a few items like future investment returns, liability experience, and new hire experience.

1. Estimated impact of investment returns

Employer costs impacted by investment returns after applying the asset smoothing methodology. With the actuarial smoothing of investment returns over a five-year period, a portion of the returns for the most recent four years will affect the smoothed return for the upcoming year. We have tested the expected future cost changes based on the actual returns through 2024 and using the most recent fiscal 2025 investment return estimate of 5.8% through November 2024 (assuming neutral returns through the remainder of the fiscal year). This scenario test is based on the base case that the system earns the assumed rate of return each of the following 5 years:

Plan A:

Year	Tested Market Return	Estimated Actuarial Return	Expected Impact on ER rate
2025	5.80%	6.90%	-0.04%
2026	6.85%	4.50%	+1.85%
2027	6.85%	7.53%	-0.55%
2028	6.85%	7.24%	-0.33%
2029	6.85%	6.68%	+0.16%
2030	6.85%	6.85%	+0.00%

Plan B:

Year	Tested Market Return	Estimated Actuarial Return	Expected Impact on ER rate
2025	5.80%	6.61%	+0.10%
2026	6.85%	4.51%	+1.00%
2027	6.85%	7.35%	-0.22%
2028	6.85%	7.14%	-0.13%
2029	6.85%	6.68%	+0.08%
2030	6.85%	6.85%	+0.00%

2. Historical liability experience:

Although we cannot truly know what to expect from liability experience without performing an actuarial valuation, we can look at recent history for some idea of what might be expected in the near future. The following table shows the impact of liability experience in each of the past few years for Plans A and B. Liability experience represents the impact of actual member and employer decisions as compared to our actuarial assumptions. Salary increases and demographic assumptions like retirements, DROP entries, disabilities, withdrawals and mortality are key components. Summary values in chart found below the Historical new member experience section:

3. Historical new member experience:

Because of the less expensive newer tier rules, both Plans A and B have experienced reductions in normal cost in recent years as a larger portion of each Plan is enrolled in the less expensive tier. The savings from the impact of new members is expected to continue. See the chart below:

Year	Plan A Liability Experience	Plan B Liability Experience	Plan A New Member Experience	Plan B New Member Experience
2020	-0.32%	-0.37%	-2.00%	-1.05%
2021	+0.06%	-0.20%	-2.01%	-1.21%
2022	+0.01%	-0.07%	-2.00%	-1.40%
2023	-1.30%	-0.22%	-2.09%	-1.39%
2024	-0.93%	-0.49%	-1.62%	-1.27%
5 year average	-0.49%	-0.27%	-1.95%	-1.26%

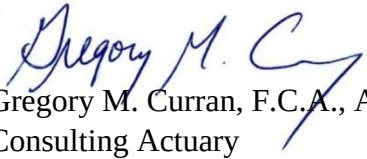
Both plans have averaged cost savings from liability experience over the past five years. This is consistent with our approach of setting assumptions in a conservative fashion. The greatest risk of future cost increases from liability experience is salary increases in excess of assumed rates. Both plans have also experienced significant average savings from new member experience. This is expected to continue as the plan transitions to include only members covered by the newest tier of benefits.

Although the numbers provided above are not sufficient to truly project the employer contribution rate over the next few years, they do show that the base case for near-term minimum employer contribution rates is a further reduction in cost. The two main items that could cause the employer rate to increase instead of decrease would be – larger salary increases for active members than assumed and future investment returns below 6.85%.

Hopefully, the information contained within this letter will provide you with sufficient background information to set the employer contribution rate for Fiscal 2026. Continuing to set the employer contribution rate above the minimum over a long period of time will allow the Board to build a significant rainy day fund and to provide more consistent COLAs to plan retirees.

If you have any questions, please give us a call.

Sincerely,



Gregory M. Curran, F.C.A., A.S.A.
Consulting Actuary