

MERS – BOARD EDUCATION

**UNDERSTANDING PLAN HISTORY AND FUTURE
EXPECTATIONS**

TRUSTEE EDUCATION SESSION

JUNE 2026

Gregory M. Curran, FCA, MAAA, ASA, EA
Senior Consulting Actuary
Curran Actuarial Consulting, Ltd.

"THOSE WHO DO NOT LEARN FROM HISTORY ARE DOOMED TO REPEAT IT"

This presentation is a look back at MERS' history to help us understand what might be coming and what we might want to avoid.

(We will use Plan A to discuss historical trends)

Historical Plan A Employer Rates – 1990s

- In the 1990's, the employer contribution rates varied between their highest level of 8.50% in 1991 and their lowest level of 5.5% in 1995.
- In 1998 the rate dropped slightly to 5.75%
- The Board elected to hold the rate at 5.75% for 1999 and 2000.
- Had the system experienced a contribution gain from the frozen employer rate, the system's UAL would have been reduced.

Historical Plan A Employer Rates – Turn of the Century

- In 1999, despite investment gains, after granting a COLA and implementing a 25 years of service and any age retirement rule, the required contribution rates increased and no excess contributions were collected.
- In 2000, another COLA was granted and assumption changes related to retirement, disability, DROP entry, salary scale led to cost increases. No excess contributions were collected.

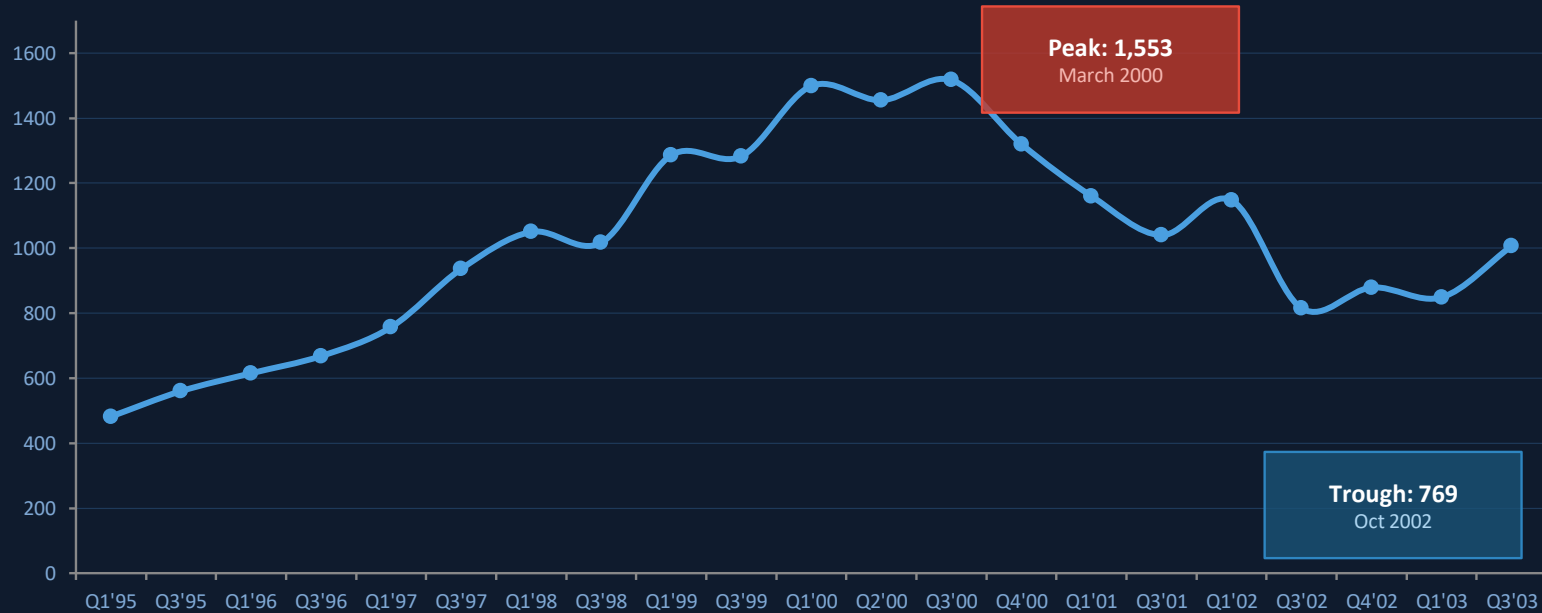
EXPECTATIONS IN THE NEW CENTURY

- The new retirement rule at 25 years of service regardless of age (passed in Act 240 of 1999) was expected to increase employer costs by 2.3% of payroll based on assumptions in effect at the time.
- The need to reduce the assumed rate of return many times since has increased the net impact of the change.
- COLAs from the 1990s added to cost pressures (1997, 1999, 2000, 2001)
- What wasn't expected at the time was the investment market correction that was about to occur

In March 2000, a major shock to Investment Returns

S&P 500: The Dot-Com Bubble

Index Level | 1995 – 2003



1,553

Peak (Mar 2000)

769

Trough (Oct 2002)

-50%

Total decline

7 years

Recovery time

THE TECH BUBBLE BURST

The Dot-Com Bubble caused significant short-term investment losses on the system's equity assets.

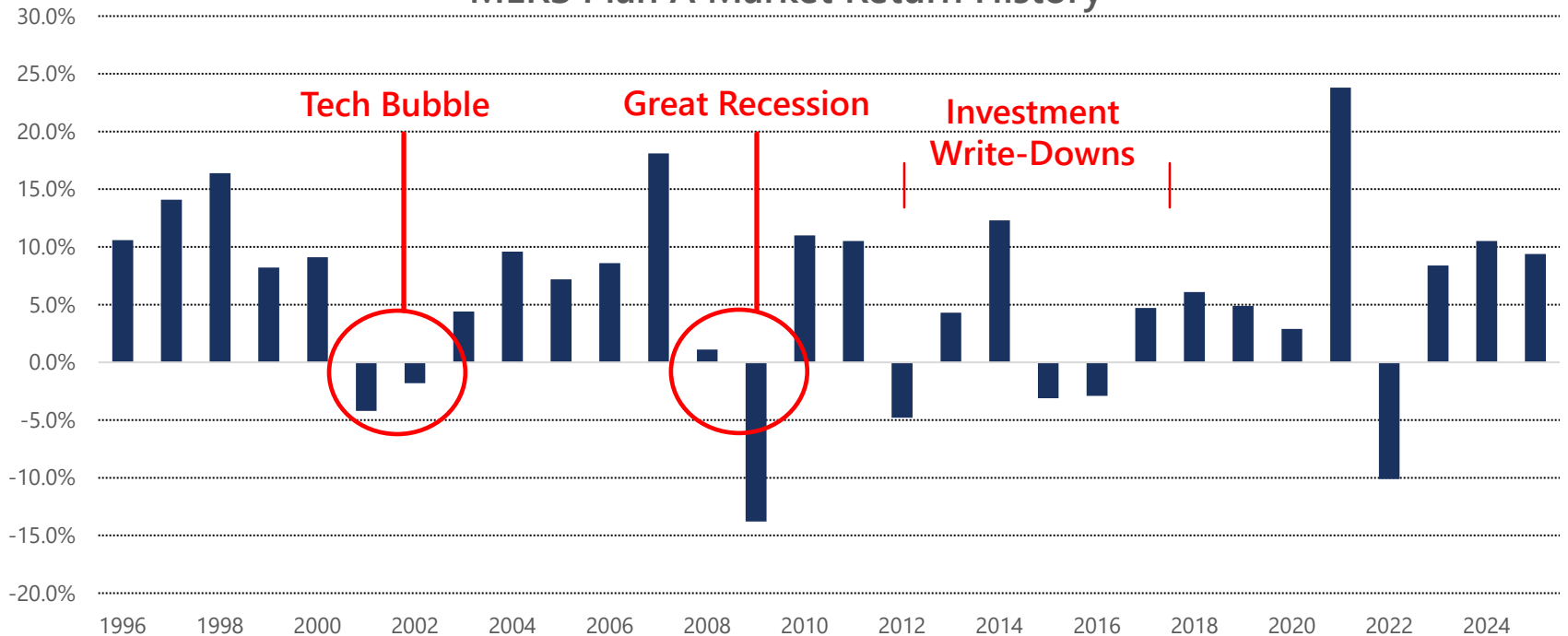
A significant portion of total funding for MERS benefits comes from investment returns. The use of an assumed rate of return is a recognition that MERS does not have to collect the full cost of providing benefits from employees, employers, and tax monies

When the system experiences returns below the assumed rate of return, the "missing funds" must be replaced by employers (under Louisiana statutes)

The Dot-Com Bubble caused losses that led to increases in the minimum employer contribution rates

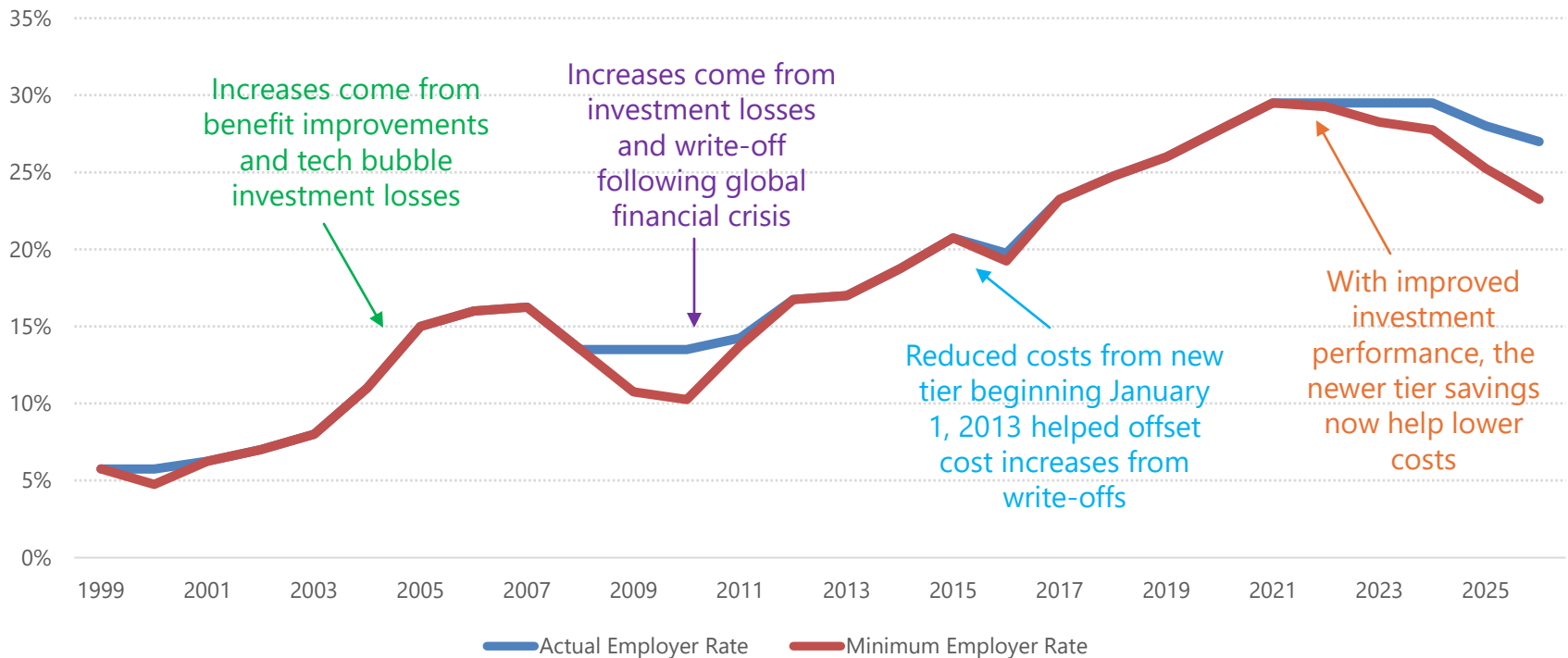
HISTORICAL RETURNS

MERS Plan A Market Return History



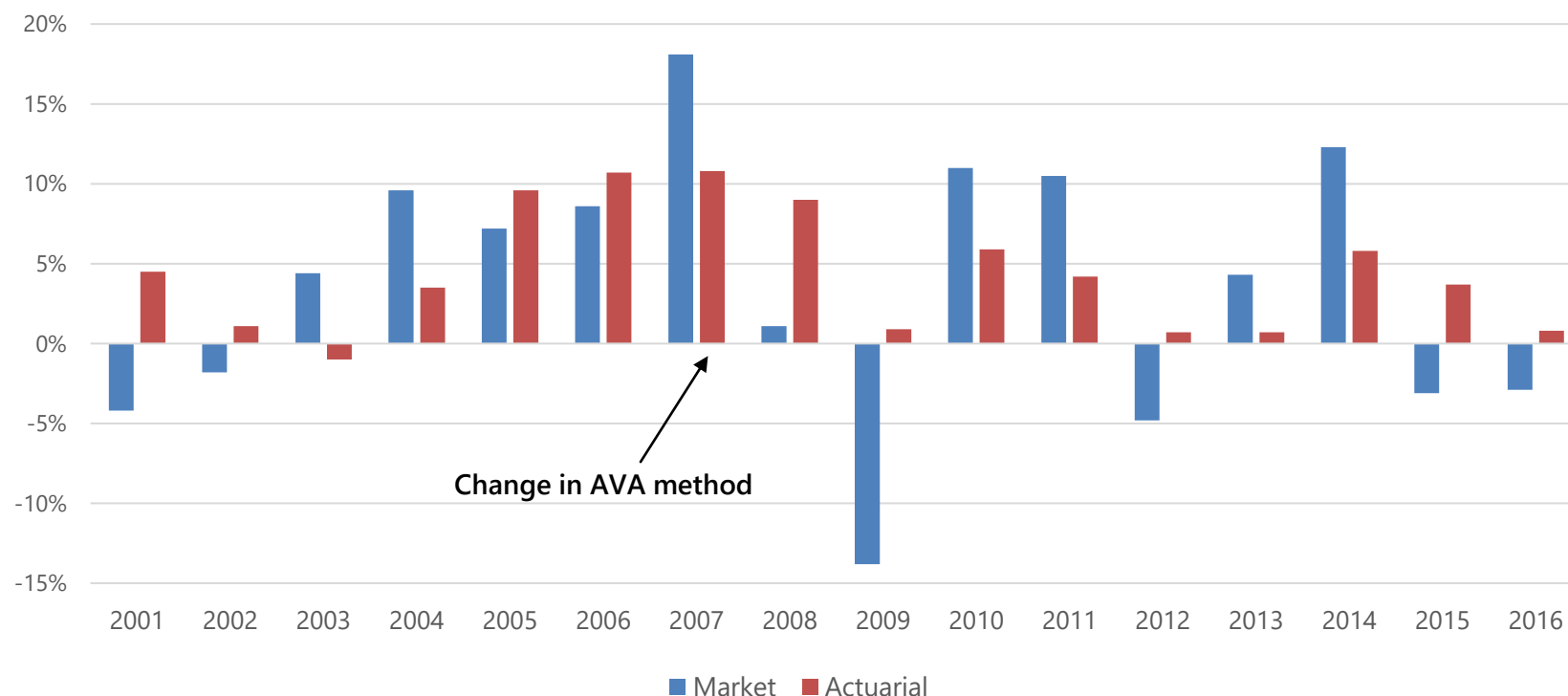
MINIMUM EMPLOYER CONTRIBUTION RATES REACTED TO INVESTMENT LOSSES

MERS Plan A Employer Rates



Actuarial smoothing can help mitigate the volatility in investment returns, but in periods of consistent underperformance smoothing cannot overcome cost increase pressures

Actuarial Smoothing



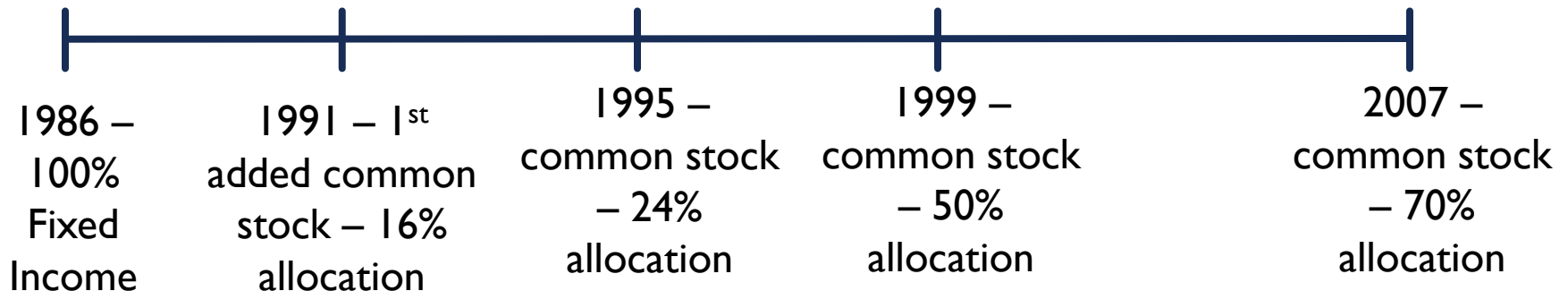
Valuation Years	History of the Asset Smoothing Method
1986	Investments carried at amortized cost
1991	Fixed Income investments carried at amortized cost; Stocks carried at market value
1997	Fixed Income investments carried at amortized cost; Stocks are carried at market value with one-half of all realized and unrealized capital gains deferred for one year
1997	GASB Statement 31 – State and local governments must report most investments at fair (market) value
1998	Fixed Income investments carried at amortized cost; Stocks are carried at market value adjusted to smooth all realized and unrealized capital gains over a three-year period.
2003	Market value of investment securities adjusted to smooth realized and unrealized capital gains over a 3-year period
2006	Market value of investment securities adjusted to smooth realized and unrealized capital gains over a 4-year period
2007	Market value of investment securities adjusted to smooth realized and unrealized capital gains over a 4-year period with a corridor added limiting AVA to 90% - 110% of MVA
2009	Current method of 5 Year Smoothing

CURRENT ASSET SMOOTHING METHOD

Invested assets are valued at market value adjusted to defer four-fifths of all earnings above or below the valuation interest rate in the valuation year, three-fifths of all earnings above or below the valuation interest rate in the prior year, two-fifths of all earnings above or below the valuation interest rate from two years prior, and one-fifth of all earnings above or below the valuation interest rate from three years prior. The resulting smoothed values are subject to a corridor of 85% to 115% of the market value of assets. If the smoothed value falls outside the corridor, the actuarial value is set equal to the average of the corridor limit and the smoothed value.

WHY CHANGE THE METHOD?

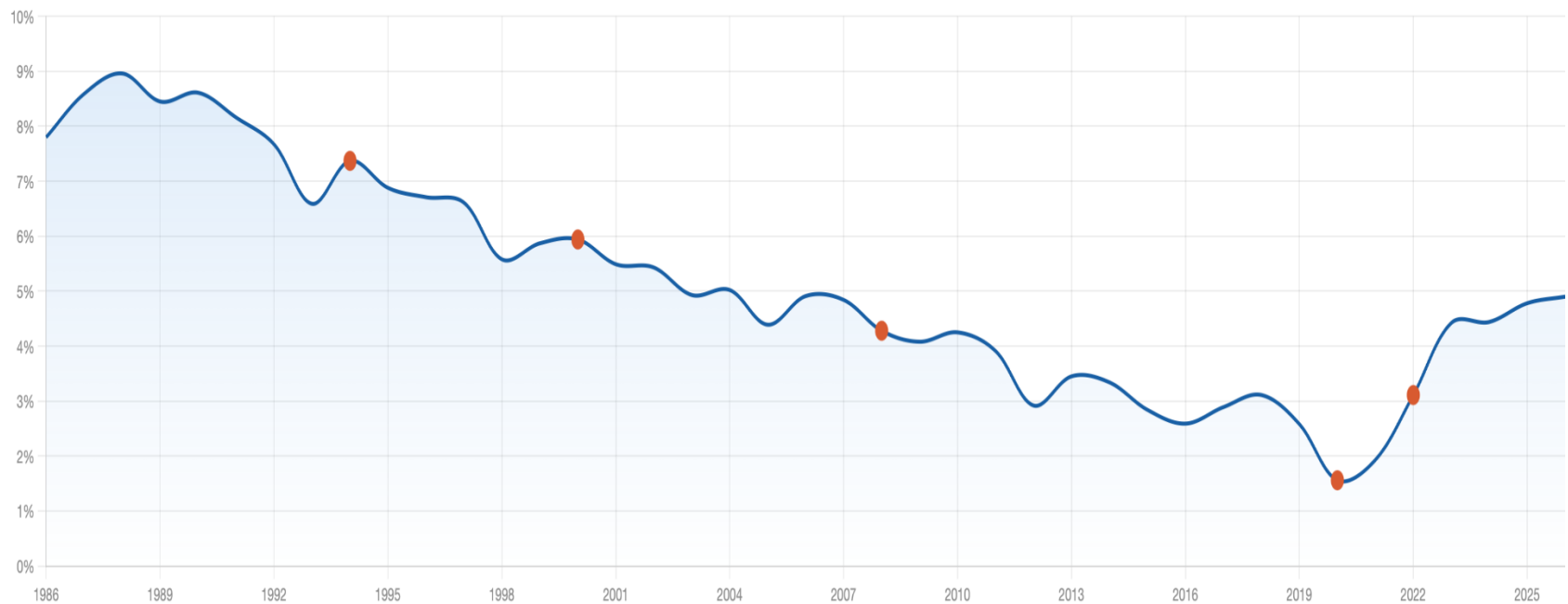
- The early versions of asset smoothing focused on a portfolio valued using amortized cost. This was appropriate when the system was primarily invested in fixed income investments.
- It took time for the system's board to consider investing in equities



By 2009, the system had materially reduced the traditional fixed income and common stock allocation in favor of alternative investments (many of which were very sensitive to credit markets)

IMPACT OF FIXED INCOME INVESTMENT RETURNS

The 30-year Treasury bond rates have in many ways driven the asset allocation and the asset allocation changes have caused changes to the asset smoothing methodology



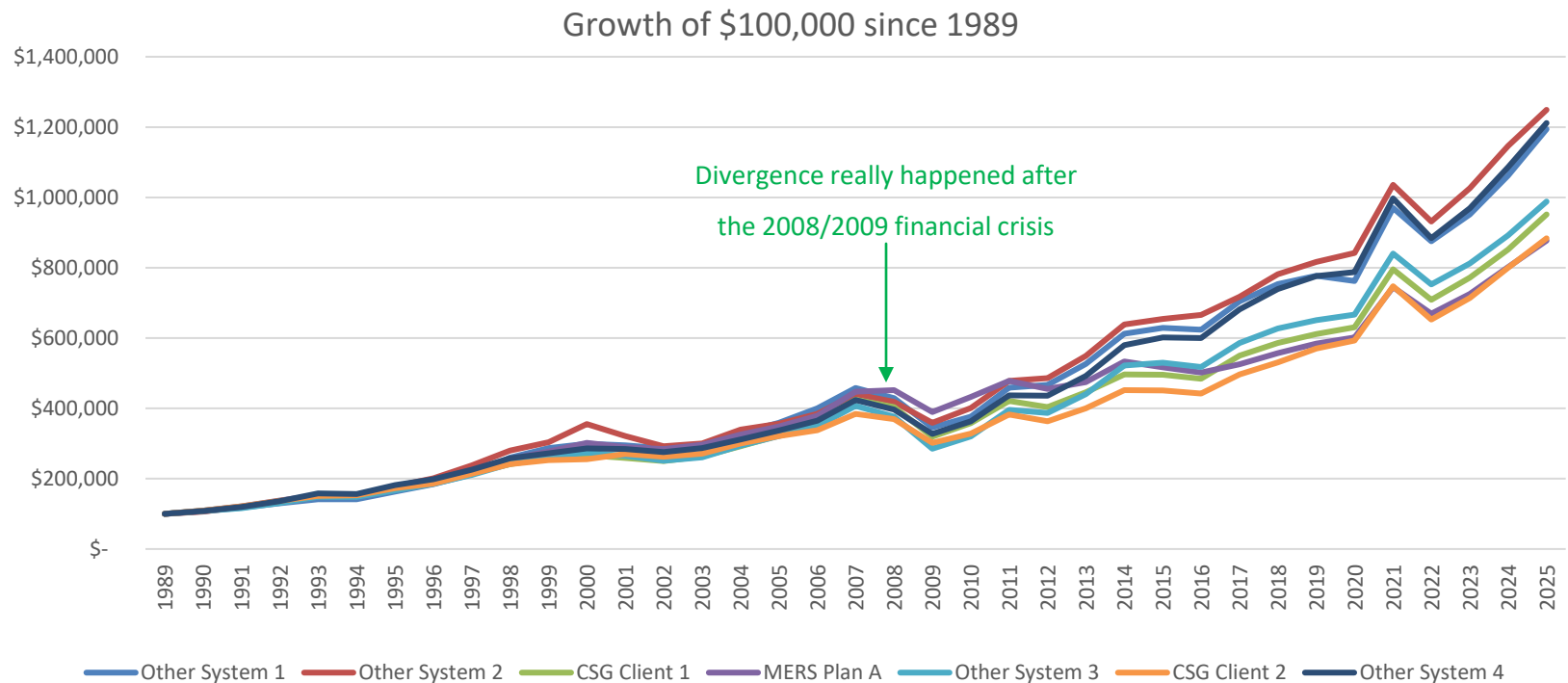
THE GREAT RECESSION DELIVERED A SECOND MAJOR CORRECTION TO EQUITIES

- The Great Recession involved significant investment losses from October 2007 through March 2009. The S&P 500 plummeted 57% during this period.
- In 2009, the Funding Deposit Account (FDA) was created to offer Boards the chance to prepare better for the next downturn.
- Knowing that investment losses were coming, the Board held the 13.5% employer rate above the minimum in Fiscal 2009 and added \$6.1 million to the FDA.
- In 2015, the Board used \$1.8 million of the funds in the FDA to reduce the employer rate by 1% in Plan A.
- In 2017, the Board used just under \$1 million to reduce the employer rate by 0.5% in Plan A.

IMPACTS ON MERS

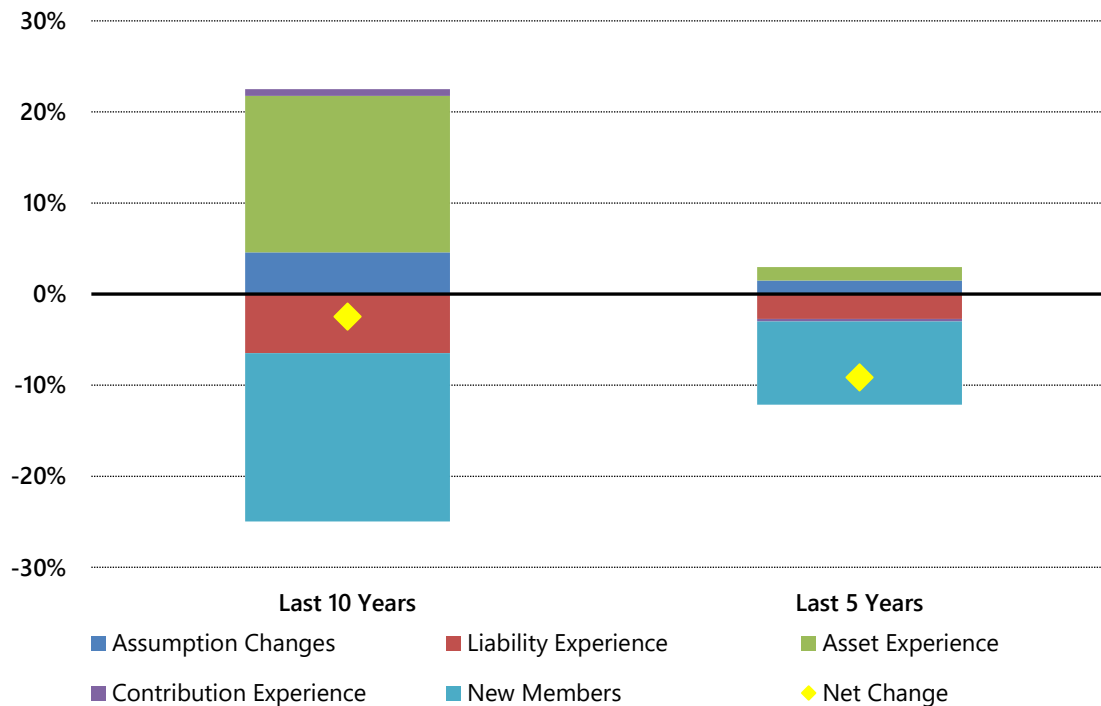
- With a smaller allocation to common stocks, it wasn't the stock market drop alone that affected the MERS portfolio.
- A credit crunch caused by the financial crisis had a significant negative impact on the MERS alternative investment portfolio, causing permanent losses in several investments.
- The following slide compares the investment outcome of plans with similar portfolio allocations during the financial crisis to a few plans with more traditional asset allocations.

IMPACT OF DIFFERENT INVESTMENT APPROACHES



WHAT TO EXPECT

Figure 9.1 - Plan A Cumulative Gains and Losses



Recent actuarial experience has included larger gains than losses.

The largest gains have come from new members who join without historical losses

INVESTMENT EXPECTATIONS

Excess (Shortfall) of Invested Income
For Current and Previous 4 Years:

Fiscal year 2025	\$	27,018,924
Fiscal year 2024		34,931,342
Fiscal year 2023		13,366,803
Fiscal year 2022		(165,706,954)
Fiscal year 2021		132,640,795
Total for Five Years	\$	42,250,910

In the 2025 valuation, the system showed investment gains compared to the assumed rate of return in each of the past 5 years (other than 2022)

The 2022 loss was the largest single year experience.

The 2021 gain was fully incorporated in the 2025 valuation. This means that in 2026 the 2022 loss will be a part of the smoothing calculation for the last time.

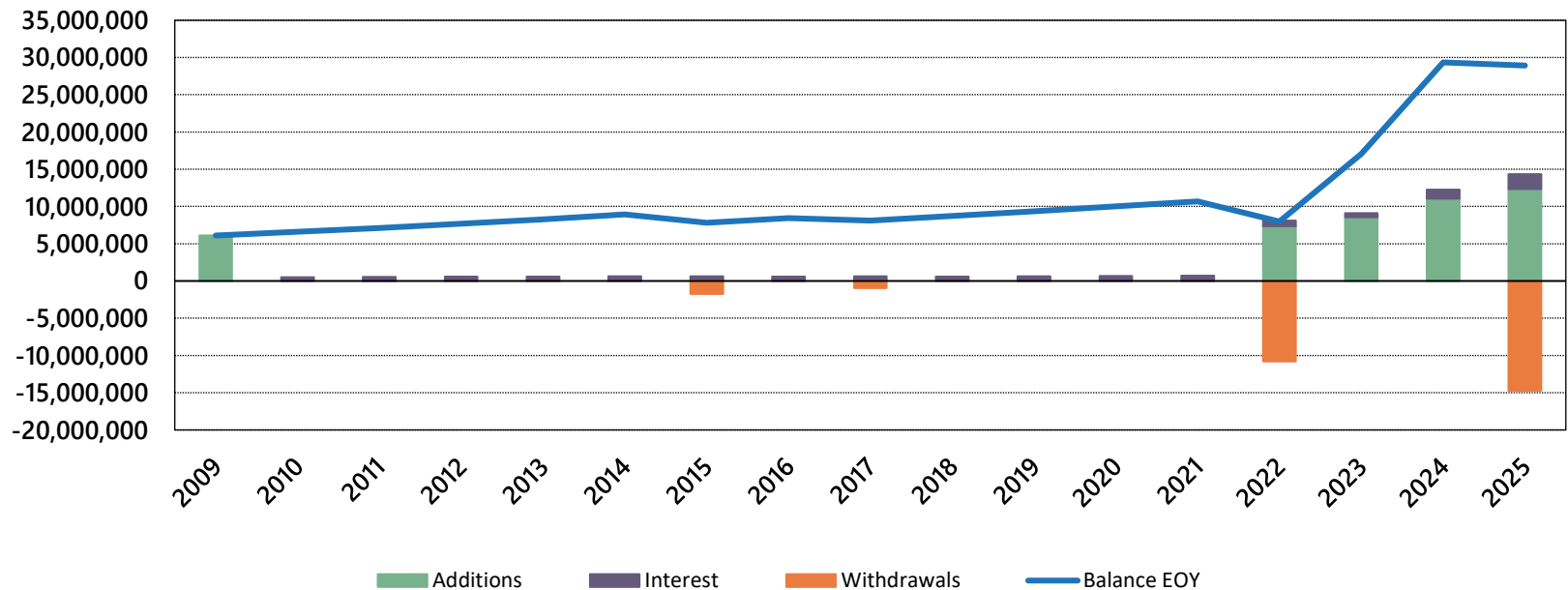
INVESTMENT GAIN/LOSS EXPECTATIONS FOR 2026

Based on historical gains and losses, for Fiscal 2026, Plan A would need a return of approximately 14.25% and Plan B would need a return of approximately 14.75% to have a neutral investment year on an actuarial basis.

Assuming that Fiscal 2026 finishes with an investment gain, beginning in Fiscal 2027, consistent historical actuarial investment gains since Fiscal 2023 will help to elevate actuarial rates of return.

THE BOARD HAS SOME MONEY SET ASIDE

Figure 3.1. Plan A | Funding Deposit Account History



With the employer rate set at 27% during Fiscal 2026 and the actuarially required employer rate at 20.81% for Fiscal 2026 (calculated in the 2025 valuation), we estimate that additions to the Funding Deposit Account could equal \$12 million.

OTHER THINGS THAT CAN AFFECT FUTURE COSTS

Salary increases have the largest impact on liability experience gains/losses



Salary increases above assumed levels for the past 3 years has put upward pressure on costs

Active Retirements have been higher than assumptions over the last few years



Has put upward pressure on costs

DROP Entries have been lower than assumptions over the last few years



DROP Entries have been lower than assumptions over the last few years.

Withdrawals have had mixed experience



Withdrawals have had mixed experience

Retiree deaths have exceeded assumptions



Retiree deaths have exceeded assumptions

FINAL THOUGHTS ABOUT 2026

- There should be no changes in plan assumptions
- New hires have consistently provided an offset to potential cost increases. The impact for Plan A has lessened recently. This could be due to the loss of LCG new hires.
 - Average reduction in normal cost % for new hires in the most recent 5 years in Plan A has been 1.8% (with only 1.4% in 2025) and in Plan B has been 1.3%.
- Liability experience has reduced costs in each of the past few years. Even if liability experience is neutral in 2026, if new hires continue to reduce costs at a level similar to that experienced in 2025, the plans are more likely to see continued decreases in minimum employer contribution rates.
- If investment markets end with the system's fourth investment gain in a row, continuing to hold employer rates above the minimum level to put money aside in the Funding Deposit Account will continue to build up the potential rainy day fund as a protection against future losses.