

2008

*Summary Annual
Report*

Integrity

Accountability

Trust

Responsibility



A component unit of the State of Louisiana for the fiscal year ended June 30, 2008

Message from the Director



Dear TRSL Members and Benefit Recipients:

I am pleased to present the Teachers' Retirement System of Louisiana (TRSL) Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2008.

On the cover of this summary report, you'll see the words responsibility, integrity, trust, and accountability. These words have always held great meaning at TRSL. They capture the culture and spirit of our agency, and they reflect the core values of the TRSL Board, management, and staff. And now, they are the central principles of our newly adopted mission and vision statements.

Our mission statement reads: *Retirement security in a changing world*. It's a simple but significant statement. Despite life's uncertainties, at TRSL our foremost concern is providing a secure retirement system for Louisiana educators. This means working with all stakeholders to ensure the best interests of the System and its members are met; developing systems and processes to ensure the accurate and timely delivery of retirement benefits; positioning TRSL to achieve optimal investment results; and providing the resources to help members make informed decisions about their financial futures. I am pleased with all of the work we have accomplished during the last year toward this mission.

For the second consecutive year, TRSL was able to grant a three percent cost-of-living adjustment (COLA) to help offset the increase in inflation. We know how important it was to our retirees that we work with legislators to secure approval of this benefit increase.

TRSL also received a \$40 million appropriation during the second special legislative session of 2008. These funds go toward paying down the unfunded accrued liability (UAL), enabling us to retire this debt sooner.

Operationally, we are moving closer to our goal of providing a seamless and paperless retirement experience for our members. As many of you know, we added more online self-service features to Member Access. These additions give members increased flexibility in managing their retirement accounts.

In the area of investments, we use thoughtful and deliberative investment strategies that seek to add value to our portfolio while minimizing undue risk.

The financial environment proved to be quite challenging in Fiscal Year 2007-08. TRSL earned a -5.14 percent investment return. On the bright side, certain assets in our portfolio had double-digit returns. In mortgage-backed fixed income and global fixed income portfolios, we earned 10.10 percent and 13.46 percent respectively. Additionally, a look at TRSL returns over a five-year period shows that we have achieved an annualized total fund return of 11.35 percent, which exceeds the actuarial assumed investment earnings of 8.25 percent. It is the diversity of assets in our investment portfolio that shields the trust fund from periods of high market volatility.

We continue to make retirement education available to members and employers no matter where they live or work. We hold retirement workshops throughout the state; we schedule individual retirement counseling; and we've added multimedia presentations to our website, www.trsl.org, to help members understand their retirement benefits. We look for every opportunity to provide the tools and resources our members and employers need to prepare themselves and their employees for retirement.

Finally, I am happy to report that once again we have been recognized for our cost efficiency and customer service. When comparing our program to other national public pension systems, a benchmarking service found that our actual administrative costs are 52 percent lower than our predicted costs given the level of service we provide and the complex structure of our plan. We are extremely pleased with the positive results, and we will continue to pursue the highest standards in public pension administration and financial investment.

I do encourage you to review the information in this report. It is a summary of our more thorough Comprehensive Annual Financial Report (CAFR), which may be viewed on our website at www.trsl.org. You may also contact us at 225-925-6446 to request a copy of the CAFR.

Sincerely,

Maureen H. Westgard
TRSL Director

One hundred fifty-six thousand copies of this public document were published at a cost of \$28,104.02. This document was published by the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, to make public TRSL's financial operations under the authority of LSA-R.S. 11:832B. Printing of this material was purchased in accordance with the provisions of Title 43 of the Louisiana Revised Statutes.



TRSL ended the 2008 fiscal year with \$15.0 billion in net assets held in trust and a -5.14 percent market return on investments.

Condensed Comparative Statements of Plan Net Assets

| | 2008 | 2007 | 2006 |
|--|--------------------------|--------------------------|--------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 36,087,141 | \$ 15,294,772 | \$ 59,572,968 |
| Receivables | 475,647,057 | 363,771,661 | 479,402,178 |
| Investments (fair value) | 14,764,880,898 | 16,045,489,228 | 13,755,624,235 |
| Securities lending collateral | 1,063,675,677 | 2,507,280,388 | 2,169,031,263 |
| Capital assets | <u>4,643,492</u> | <u>4,324,000</u> | <u>4,515,507</u> |
| Total assets | <u>16,344,934,265</u> | <u>18,936,160,049</u> | <u>16,468,146,151</u> |
| Liabilities | | | |
| Accounts payable and other liabilities | 285,008,869 | 280,149,444 | 291,502,140 |
| Securities lending collateral | <u>1,063,675,677</u> | <u>2,507,280,388</u> | <u>2,169,031,263</u> |
| Total liabilities | <u>1,348,684,546</u> | <u>2,787,429,832</u> | <u>2,460,533,403</u> |
| Net assets held in trust | <u>\$ 14,996,249,719</u> | <u>\$ 16,148,730,217</u> | <u>\$ 14,007,612,748</u> |

Condensed Comparative Statements of Changes in Plan Net Assets

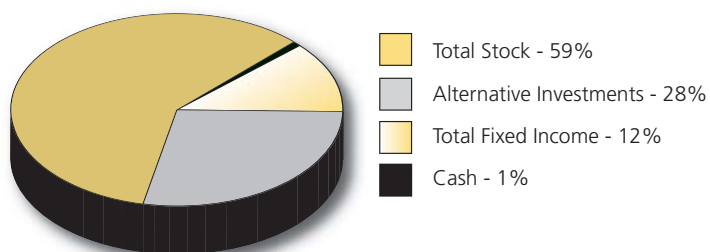
| | 2008 | 2007 | 2006 |
|-------------------------------------|--------------------------|--------------------------|--------------------------|
| Additions | | | |
| Member contributions | \$ 323,678,452 | \$ 282,326,101 | \$ 258,412,024 |
| Employer contributions | 656,091,577 | 544,401,879 | 529,983,453 |
| ORP contributions retained | 57,569,465 | 49,429,250 | 49,293,547 |
| Other operating revenues | 46,264,759 | 5,496,271 | 3,208,183 |
| Total net investment income | <u>(799,919,813)</u> | <u>2,616,966,317</u> | <u>1,737,664,681</u> |
| Total additions | <u>283,684,440</u> | <u>3,498,619,818</u> | <u>2,578,561,888</u> |
| Deductions | | | |
| Benefits and refunds | 1,420,738,298 | 1,343,672,281 | 1,243,011,102 |
| Administrative expenses | 14,880,903 | 13,323,547 | 13,362,286 |
| Other operating expenses | <u>545,737</u> | <u>506,521</u> | <u>488,341</u> |
| Total deductions | <u>1,436,164,938</u> | <u>1,357,502,349</u> | <u>1,256,861,729</u> |
| Net increase | (1,152,480,498) | 2,141,117,469 | 1,321,700,159 |
| Net assets beginning of year | <u>16,148,730,217</u> | <u>14,007,612,748</u> | <u>12,685,912,589</u> |
| Net assets end of year | <u>\$ 14,996,249,719</u> | <u>\$ 16,148,730,217</u> | <u>\$ 14,007,612,748</u> |



Investments at Fair Value

| | 2008 | 2007 | 2006 |
|--------------------------|--------------------------|--------------------------|--------------------------|
| Domestic bonds | \$ 2,068,620,083 | \$ 1,908,652,650 | \$ 2,121,505,657 |
| International bonds | 791,074,725 | 772,811,203 | 449,917,634 |
| Domestic stocks | 4,488,267,744 | 5,956,585,766 | 5,630,073,349 |
| International stocks | 3,568,846,836 | 3,601,296,445 | 3,188,085,062 |
| Short-term investments | 624,681,156 | 981,706,327 | 203,642,122 |
| Alternative investments | 3,223,390,354 | 2,824,436,837 | 2,162,400,411 |
| Total investments | \$ 14,764,880,898 | \$ 16,045,489,228 | \$ 13,755,624,235 |

Asset Allocations



TRSL Investments at a Glance

The total value of TRSL's investments as of fiscal year ended June 30, 2008, is \$14.8 billion.

Two primary factors drive investment performance: individual asset selection and the allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate, etc.).

Last year, we broadened our asset class definitions giving us an opportunity to increase our portfolio's flexibility and position. Additionally, the diverse mix of investments in our portfolio shields trust fund assets from periods of high market volatility.

Despite the challenging conditions of U.S. and international financial markets, TRSL ended Fiscal Year 2007-08 with a -5.14 percent return on investments, beating the policy benchmark by 1.83 percent.

In fact, returns for our alternative investments, core real estate, mortgage-backed fixed income, and global fixed income portfolios were 4.49 percent, 8.43 percent, 10.10 percent, and 13.46 percent respectively.

Over a 10-year period, TRSL has achieved an annualized total fund return of 6.90 percent. Our five-year return is 11.35 percent, which exceeds the actuarial assumed investment earnings of 8.25 percent.

10-Year Rates of Return



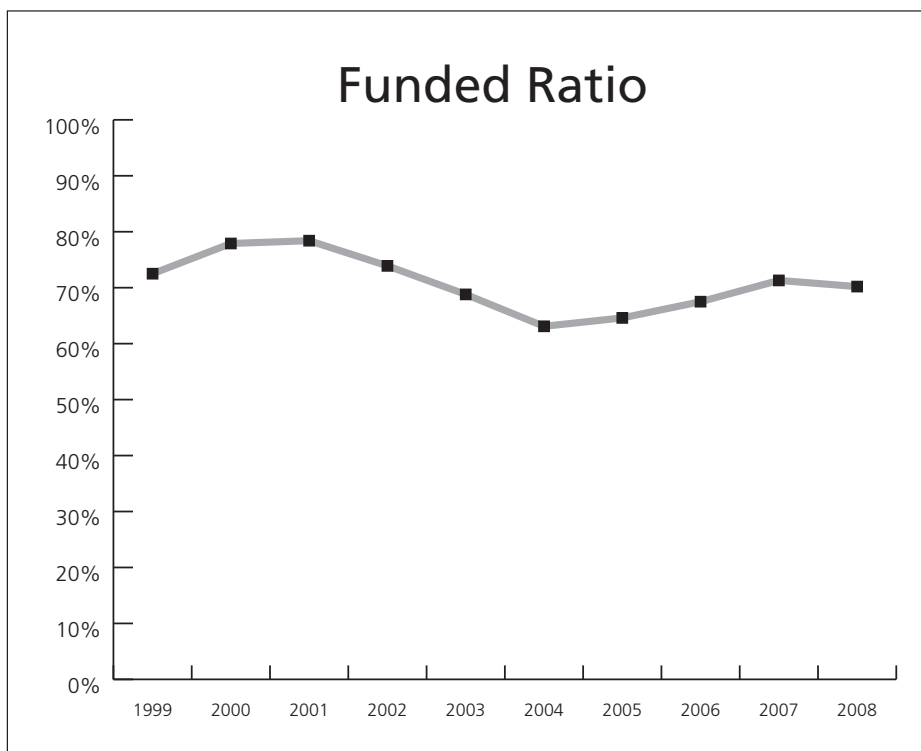


Each year, TRSL's actuary calculates the amount of money we must have on hand to pay all the retirement benefits earned to date for both retired and active members.

We use this information to help us estimate our long-term costs. The actuary's calculation relies on many

assumptions, projections, and estimates, which ultimately determine our actuarial value of assets.

The actuarial value of assets is different from the current market value. Market value is based on what assets could be sold for on a specific date, which can change significantly from day to day.



The actuarial value of assets uses a smoothing technique to better estimate our assets and liabilities. It "smooths" short-term market gains and losses over a four-year period, producing a valuation that approximates market value but removes much of the volatility global markets can experience. With less volatility, we can better meet long-term funding needs.

As of fiscal year ended June 30, 2008, the System's unfunded actuarial accrued liability (UAAL) is \$6.6 billion, and its funded ratio is 70.2 percent. This means that TRSL has 70.2 cents to cover the present value of every dollar expected to be paid in future retirement benefits.

Summary of Actuarial Valuation

| | 2008 | 2007 | 2006 |
|--------------------------|------------------|-----------------|-----------------|
| Membership census | | | |
| Retirees | 61,070 | 59,530 | 57,512 |
| Active | 85,979 | 82,672 | 81,347 |
| DROP | 3,760 | 3,715 | 4,042 |
| Terminated vested | 6,043 | 6,624 | 7,039 |
| Actuarial yield | 5.15% | 15.20% | 15.65% |
| Funded ratio | 70.2% | 71.3% | 67.5% |
| Annual benefits | \$ 1,383,381,577 | \$1,295,552,338 | \$1,204,472,977 |
| Member contribution | \$ 323,678,452 | \$ 282,326,101 | \$ 258,412,024 |
| Employer contribution | \$ 753,661,042 | \$ 593,831,129 | \$ 579,277,000 |
| Investment income | \$ (793,655,054) | \$2,616,966,317 | \$1,737,664,681 |

Revenues and Expenses



Revenues

Investment income and contributions from employees and employers are the main sources of funding for TRSL.

Employees in the field of higher education who participate in the Optional Retirement Plan (ORP) have their contributions transferred to a third-party provider, less a 0.1 percent administrative fee. The funds from this fee, and the unfunded accrued liability (UAL) portion of the employer contribution rate, which is 9.66 percent, make up "ORP Contributions Retained."

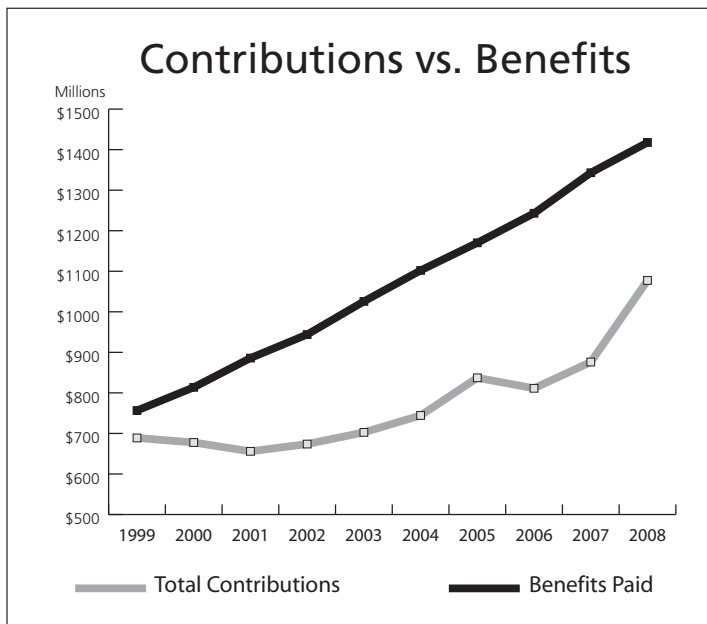
"Other Operating Revenues" include income from miscellaneous receipts related to the operation of the pension plan, such as litigation settlements and processing fees.

Revenues by Source

| Fiscal Year | Member Contributions | Employer Contributions | ORP Contributions Retained | Acts 642* and 7** | Net Investment Income | Other Operating Revenues | Total |
|-------------|----------------------|------------------------|----------------------------|-------------------|-----------------------|--------------------------|------------------|
| 2005-2006 | \$ 258,412,024 | \$ 503,583,453 | \$ 49,293,547 | \$ 26,400,000* | \$ 1,737,664,681 | \$ 3,208,183 | \$ 2,578,561,888 |
| 2006-2007 | 282,326,101 | 544,401,879 | 49,429,250 | 0 | 2,616,966,317 | 5,496,271 | 3,498,619,818 |
| 2007-2008 | 323,678,452 | 656,091,577 | 57,569,465 | 40,000,000** | (799,919,813) | 6,264,759 | 283,684,440 |

* Act 642 of 2006

**Act 7 of 2007



Expenses

Benefit payments represent the bulk of TRSL expenses. In fiscal year ended June 30, 2008, benefit payments totaled \$1.38 billion.

These dollars are a source of income to retirees and beneficiaries, and fuel the economies of local communities where they live and spend their money.

Roughly one penny out of every dollar goes toward the cost of running TRSL. Self-generated funds, supplied by interest earnings on investments, are budgeted for administrative expenses.

TRSL also accounts for the depreciation of its building, equipment, and furniture. This expense is based on the loss in value of property over time due to wear or age.

Expenses by Type

| Fiscal Year | Benefits | Refunds | Administrative Expenses | Depreciation Expenses | Total |
|-------------|------------------|---------------|-------------------------|-----------------------|------------------|
| 2005-2006 | \$ 1,204,472,977 | \$ 38,538,125 | \$ 13,362,286 | \$ 488,341 | \$ 1,256,861,729 |
| 2006-2007 | 1,295,552,338 | 48,119,943 | 13,323,547 | 506,521 | 1,357,502,349 |
| 2007-2008 | 1,385,666,955 | 35,071,343 | 14,880,903 | 545,737 | 1,436,164,938 |

Summary of 2007-2008 Legislation



2008 First Special Session

Act 1 requires different levels of financial disclosure by certain public officials. *(Effective January 1, 2009)*

Act 3 requires ethics education for elected officials, lobbyists, and public servants. *(Effective April 26, 2008)*

Act 9 places new restrictions on the receipt of food and drink by public servants. *(Effective March 30, 2008)*

Act 11 requires state agencies to designate at least one person in the agency as the ethics instructor for the agency. *(Effective April 26, 2008)*

Act 13 changes the reporting requirements for both legislative and executive branch lobbyists. *(Effective January 1, 2009)*

HR 11 requires anyone seeking to testify before a legislative committee to sign a sworn statement in the form of a signed witness card affirming that the testimony is true and correct. *(Effective February 25, 2008)*

HCR 7 memorializes Congress to consider eliminating the GPO/WEP Social Security reductions of federal, state, and local government retirees. *(Effective February 25, 2008)*

2008 Second Special Session

Act 7 appropriates \$40 million to pay down the unfunded accrued liability (UAL). *(Effective July 1, 2008)*

SR 8 requests a study of issues related to providing for the retirement of employees of charter schools. *(Effective February 27, 2008)*

2008 Regular Session (TRSL-Recommended Legislation)

SCR 1 grants approval of a cost-of-living increase requested by the board of trustees of the Teachers' Retirement System of Louisiana. *(Effective July 1, 2008)*

Act 19 is a General Appropriations Bill that includes a \$1,564,978 appropriation from state general fund to TRSL which reflects supplemental allowances provided by various legislation; and supplemental payments to LSU Cooperative Extension retirees. *(Effective July 1, 2008)*

2008 Regular Session (Legislation Affecting TRSL)

Act 131 amends R.S. 42:7 of the public records law to prohibit a public body from considering a matter not on its meeting agenda unless a motion to do so is approved by a unanimous vote of the members present at the meeting. *(Effective August 15, 2008)*

Act 162 limits the applicability of financial disclosure provisions to those persons holding a covered office or position on or after July 1, 2008. *(Effective July 1, 2009)*

Act 472 amends the financial disclosure laws to create a new Tier 2.1 applicable to boards and commissions and provides for the financial disclosure requirements for boards and commissions covered by Tier 2.1. *(Effective July 1, 2008)*

Act 714 allows TRSL members who become eligible to participate in DROP or retire with the ILSB option on or after January 1, 2004, to elect to have their DROP/ILSB accounts earn interest at the system's rate equal to the realized return on the System's portfolio for each fiscal year as certified by the system's actuary less .50 percent, rather than at the liquid asset money market rate. It requires certain waivers and acknowledgments by the participant. *(Effective July 1, 2009)*

Act 875 provides that no person appointed or elected to a board or commission within the executive branch of state government shall serve in such position for more than three consecutive terms, unless another term limit is provided by law. *(Effective August 15, 2008)*

HSR 14 requests the House Committee on Retirement study issues relative to cost-of-living adjustments for retired teachers and state employees. *(Effective July 1, 2008)*

HR 78 requests the legislative auditor conduct a performance audit of the state retirement systems relative to the legal requirement that they direct certain percentages of investment trades through Louisiana broker-dealers. *(Effective June 16, 2008)*

Major Initiatives



We continue to use our strategic planning tool, the Balanced Scorecard, to set goals, track progress, and recognize our accomplishments. Here are a few of the milestones we achieved last year:

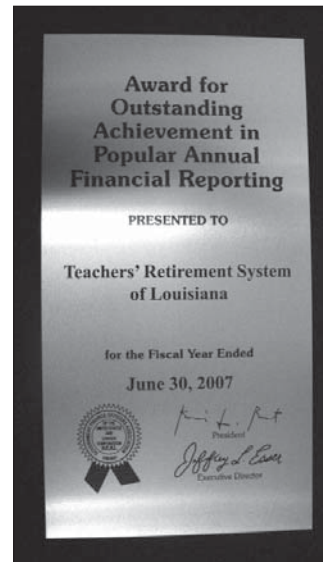
- Added more online self-service features to Member Access
- Reduced processing time for finalizing retirement benefits
- Implemented a corporate governance strategy of constructive engagement with respect to global investments
- Adopted an internally managed terror-free equity index portfolio which excludes companies with holdings in prohibited nations
- Participated as co-lead plaintiff in a \$3.25 billion securities litigation class-action settlement against Tyco International Ltd.

These accomplishments directly link to our goals in the Balanced Scorecard which focus on customer service, financial accountability, administrative and operational efficiency, public value and benefit, and workforce training and development.

In The Future

Building upon our achievements from last year, we are moving ahead with enhancements to our information

technology systems. We are in the midst of a migration to a web/browser-based Microsoft.NET system and environment. This will increase programmer efficiency, as well as enhance and expand the automated programs and services we offer members. We are also working on retooling all of our communication materials to ensure that they are clear, direct, and user friendly.



Our focus is to administer a sound public retirement system marked by trust, fairness, and integrity, as well as an unwavering pledge to provide the highest degree of customer service to our members. We believe these projects and our many other efforts bring us closer to realizing our goals.

For the sixth consecutive year, TRSL received the Award for Outstanding Achievement in Popular Annual Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA).

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Website: www.trsl.org

TRSL is an equal opportunity employer and complies with the Americans with Disabilities Act.

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