
DIGEST

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B. Gautreaux

SB No. 594

Present law (R.S. 11:267) requires certain La. public retirement or pension systems, plans, or funds to invest 10% of the equity portfolio, regardless of the amount of the system's allocation to such equities, in one or more index funds which seek to replicate the performance of the chosen index or indices. Allows the systems to invest up to 65% of the total portfolio in equities. Present law provides that, for purposes of present law, the term "equity" shall mean ownership of a corporation represented by shares that are publicly traded on a recognized exchange, including the National Association of Securities Dealers Automated Quotation (NASDAQ). Present law applies to:

- (1) Louisiana State Employees' Retirement System
- (2) Teachers' Retirement System of Louisiana
- (3) Louisiana School Employees' Retirement System
- (4) Assessors' Retirement Fund

Proposed law repeals present law.

Present law (R.S. 11:263(D)) authorizes certain La. public retirement or pension systems, plans, or funds to invest up to 55% of the individual system's total portfolio in equities. Specifies that these plans may invest more than 55% of the total portfolio in equities, so long as not more than 65% of the total portfolio is invested in equities and at least 10% of the total equity portfolio is invested in one or more index funds which seek to replicate the performance of the chosen index or indices. Present law applies to:

- (1) Clerks' of Court Retirement and Relief Fund
- (2) District Attorneys' Retirement System
- (3) Firefighters' Retirement System
- (4) Municipal Employees' Retirement System of Louisiana
- (5) Municipal Police Employees' Retirement System
- (6) Parochial Employees' Retirement System of Louisiana
- (7) Registrars of Voters Employees' Retirement System
- (8) Sheriffs' Pension and Relief Fund
- (9) State Police Pension and Retirement System
- (10) Harbor Police Retirement System

Proposed law makes present law (R.S. 11:263(D)) applicable to all state and statewide retirement systems.

Present law (R.S. 11:263(B)) provides that the prudent-man rule shall require each fiduciary of a retirement or pension system, plan or fund and each board of trustees acting collectively on behalf of each system, plan, or fund to act with the care, skill, prudence, and diligence

under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Present law further provides that this standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation, but in the context of the trust portfolio, and as part of an overall investment strategy, which shall include an asset allocation study and plan for implementation thereof, incorporating risk and return objectives reasonably suitable to that trust.

Proposed law retains present law and adds to the prudent-man rule that the asset allocation study and implementation plan shall include an examination of market value risk, credit risk, interest rate risk, inflation risk, counterparty risk, and concentration risk. Further adds that the investment policy of each system shall preserve and enhance principal over the long term and provide adequate liquidity and cash flow for the payment of benefits.

Proposed law also provides that the investments shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so. Includes a list of considerations to be taken into account before any investment decision is made. These considerations include: pricing, liquidity, transparency, legal jurisdiction, currency fluctuations, experience of professional managers, financial soundness of money management companies, diversification, leverage, and expected returns.

Proposed law requires each system, plan, or fund that is subject to the provisions of present law and proposed law to provide to the House and Senate Committees on Retirement, quarterly investment reports, which shall be reported net of investment fees and expenses and net of the system's administrative expenses and shall be provided no later than 60 days after the end of the quarter.

Proposed law repeals obsolete provisions of present law.

Effective July 1, 2010.

(Amends R.S. 11:263(C) and (D); repeals R.S. 11:263(E), 267, and 268)

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Retirement to the original bill.

1. Technical amendments for conformity of citations.
2. Adds language relative to the prudent-man rule which incorporates an examination of market value risk, credit risk, interest rate risk, inflation risk, counterparty risk, and concentration risk. Includes a list of considerations to be taken into account before all investment decisions are made. These considerations include: pricing, liquidity, transparency, currency fluctuations, experience of professional managers, diversification, leverage and expected returns.
3. Removes the illustrative list of "alternative investments" and the limitation and restrictions placed on all investment categories.
4. Retains present law 65% cap on equities and mandate that 10% of the equity portfolio be placed in index funds if a system invests more than 55% of its portfolio in equities.

Summary of Amendments Adopted by House

Committee Amendments Proposed by House Committee on Retirement to the engrossed bill.

1. Requires each system, plan, or fund that is subject to the provisions of present law and proposed law to provide to the House and Senate Committees on Retirement quarterly investment reports no later than 60 days after the end of the quarter.