

# Louisiana State Police Retirement System

SECOND QUARTER NEWSLETTER

JULY 2022

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## From the Director's Chair...

The Fed has "taken away the punch-bowl," as the adage goes. The "punch" the US and most other developed economies have been enjoying is historically low interest rates. For some time, the cost of capital for most corporations, businesses, and consumers has been extremely low from a historical perspective, allowing them to inexpensively fund capital expenditures, purchases of expendables, hiring of employees, and expanding research & development, while weathering COVID related economic constraints. In mid-June, The Federal Reserve raised its policy interest rate by 75 basis points, which it has not done since 1994. The S&P 500 officially entered bear market territory, and 10-year Treasury yields have soared to over 3.4% (their highest since 2011). The European Central Bank called an "ad hoc" meeting to address some financial cracks emerging in peripheral countries such as Italy as it begins to remove policy accommodations.

As reported by the Wall Street Journal, projections released alongside the Fed's rate decision show that policy makers, on balance, expect to raise their target range on rates by another 1.75 percentage points over their remaining four meetings this year, and another quarter or half point next year. That would put the midpoint on rates at about 3.75%, well above the 2.5% rate that the Fed thinks is neutral. The projections show an expectation for GDP to gain just 1.7% in the fourth quarter from a year earlier and grow at about the same rate in 2023. That would be a big step down from last year when GDP rose 5.5%. They expect the unemployment rate to average 3.7% in the fourth quarter, modestly above the 3.6% registered last month, and then rise to 3.9% the following year.

Equity markets are generally pricing in a good deal of weakness already. There have only been three larger equity drawdowns in the last 30 years: the COVID-19 pandemic, the 2008 Global Financial Crisis, and the 2000 collapse of the Tech Bubble. We may be getting closer to a point where risk-on assets, with their lower valuations and higher expected returns, start to appear more attractive.

It is important to focus on key tenets to navigate these turbulent waters:

- **Rely on core fixed income as a portfolio ballast.** With yields as high as they are and recession probabilities elevated, now is the time for the relative safety net of core fixed income.

- **Prioritize balance, quality, and valuation discipline in equity portfolios.** Quality companies with strong balance sheets and stable earnings growth should be better able to provide more certainty in portfolios than lower-quality peers.



### LSPRS OFFICE

With the broad selloff in the financial markets, most all sectors and styles of stocks or bonds had negative returns for the trailing 12 months. The few glimmers of positive returns were concentrated in commodities, commercial and industrial real estate, and other alternative assets. In July, these sectors are now coming under downward pressure, as higher prevailing interest rates contribute to declining asset valuations; higher prevailing interest rates result in higher discount rates, and most all financial assets are valued based on the discounted or present value of future anticipated cash flows. Our investment portfolio was not immune to the volatility of the financial markets, for the 12-month period ending May 2022, our blended equity managers returned -11.5%, fixed income managers were down -9.5%, money market fund was up a paltry 0.08%, with our total portfolio being down -5.6% when you factor in the preliminary returns of our alternatives assets. This is a marked contrast from the same time last year when our investment portfolio had a return of +32.5%. We anticipate receiving the

investment portfolio's June 2022 returns, via our UBS Flash Report, by late July or early August.

The economy has recently suffered a series of several shocks, which directly impacted the financial markets. The pandemic initially disrupted supply chains and employment relationships, followed by aggressive stimulus spurring more demand that further exacerbated the bottlenecks when the economies reopened; and this spring, the war in Ukraine sent energy, food, and commodity prices soaring. The most current reading for CPI, the Consumer Price Index, used as a measure of inflation, reflected a 9.1% rise from June a year ago. We anticipate the Fed will raise interest by 0.75% to 1.00% in their July meeting. Only recently have we seen commodity prices start to come off their highs, with oil retracing to under \$100 bbl from over \$120 bbl, and gasoline prices across the U.S. have retreated to below \$4.25 a gallon from over \$5 a gallon, although gasoline prices are still 50% higher than this time last year. With inflation impacting grocery prices, we are now seeing Americans begin to draw down their pandemic-era savings, which had soared during the heights of the pandemic to over 25% of their "income," no doubt the various stimulus checks helped to upwardly propel, although temporarily, their "income" and level of savings.

On the legislative front, we are please to inform you that the COLA/PBI bill for LSPRS, SB 7 sponsored by Senator Price, was signed into law, as were other bills brought forward by the LSPRS Board. The LSPRS staff is diligently working to quantify the revised individual benefit amounts, for those qualifying retirees and beneficiaries, resulting from the approved 2% regular and 2% supplemental COLA/PBI increases, to be paid starting on the July benefit payments.



-Kevin P. Reed  
Executive Director

## FAQ

**Question:** My address and/or banking information has changed, what do I need to do?

**Answer:** Contact LSPRS staff to update the system of the relevant changes or download the appropriate form from [lsprs.org](http://lsprs.org). Remember, banking information must be received by the 20th of each month to be effective for that month's benefit.

**Question:** I need to change my federal tax withholdings for my LSPRS benefit. How do I do so?

**Answer:** Contact LSPRS staff to receive a W4-P form. Once completed, return to LSPRS staff and your tax withholdings will be updated.

## Upcoming Election

You will soon receive ballots for the upcoming election of Active/Retiree Representative to the LSPRS Board of Trustees. This member is elected by both the active and retired members of the system. Ballots will be mailed out on **August 8, 2022** and must be returned by close of business **August 22, 2022**. Please be sure to fully complete your ballot and timely return it so that it may count towards the election.

### Helpful Contact Information

Insurance Changes:  
Wanda Stewart  
HR, Dept of Public Safety  
(225)925-6004

Group Benefits &  
MedImpact:  
(800)272-8451  
[www.groupbenefits.org](http://www.groupbenefits.org)

Blue Cross:  
(800)392-4089  
[www.bcbsla.com](http://www.bcbsla.com)

Vantage Health Plan:  
(888)823-1910  
[vantagehealthplan.com](http://vantagehealthplan.com)

Peoples Health:  
(866)912-8304  
[www.peopleshealth.com](http://www.peopleshealth.com)

AFLAC:  
(800)992-3522  
[www.aflac.com](http://www.aflac.com)

American Public:  
(800)256-8606  
[www.ampublic.com](http://www.ampublic.com)

Colonial Life:  
(800)325-4368  
[www.coloniallife.com](http://www.coloniallife.com)

LSTA:  
(225)928-2000  
(800)782-5782  
[www.latroopers.org](http://www.latroopers.org)

Social Security Office:  
(800)772-1213  
[www.socialsecurity.gov](http://www.socialsecurity.gov)

## IN MEMORY OF

### RETIREES

Max Lebleu, DOD: 04/18/2022  
Bradley J. Breaux, Jr., DOD: 05/03/2022  
Charles S. Martin, DOD: 05/28/2022  
Donald O. Browne, DOD: 06/29/2022

### SURVIVING SPOUSES/CHILDREN

Lou Anna McGee, DOD 04/04/2022  
*Spouse of Egbert McGee*  
Elinor Herd, DOD 05/01/2022  
*Spouse of Ray Herd*  
Shirley Montgomery, DOD 05/15/2022  
*Spouse of Russell Montgomery*