

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

MEMORANDUM

TO: Members and Retirees

FROM: Robert L. Rust, Director

DATE: October 13, 2008

RE: **Municipal Employees' Retirement System & The Financial Markets**

Financial markets have been thrown into turmoil in recent weeks. The credit crisis that began last year with the collapse of the subprime loan industry has resulted in the government takeover of several major financial institutions; and more may follow. While these events have created a lot of uncertainty and questions, probably the one question you'd like clearly answered is how will all of this affect my retirement benefit payments and DROP account balance? In spite of all the problems facing our economy and despite everything you read in the papers and hear on TV, it is important for you to know that the retirement system is financially sound and your benefits are secure.

The Municipal Employees' Retirement System (MERS) Board of Trustees, along with our investment advisors, are closely monitoring the System's exposure to these turbulent markets. Our portfolio is extremely well diversified with many investments in assets that are not as sensitive to the volatile stock & bond markets. The U. S. Government has already acted to inject liquidity into the financial system, brokered the sale of several large financial institutions and helped coordinate the government takeover of others. The MERS Board is confident that just as our country has endured financial crisis in the past, it will successfully withstand this crisis as well. Keep in mind that the assets of this system have been invested in anticipation of events such as the current crisis long before this crisis began. Our Board is confident that they have positioned the System's portfolio not only to get through these chaotic times, but also to prosper in the future.

The best news for us all is that despite the overall problems in the economy, your pension benefits are not solely dependent on the financial markets. Unlike defined contribution plans, such as 401(k) plans, your benefits are determined by a formula based on your years of pension service and highest three years salary. The changes in the financial markets do not factor into this calculation.

Looking forward, it is true that an economic downturn can have an impact on our investment returns. The magnitude of that impact will determine how things such as interest paid on DROP accounts and/or Cost of Living Adjustments (COLAs), will be affected. Your pensions are supported not only by investment returns, but also by contributions paid by employees and employers. Because our investments are well diversified, we are better able to weather the volatility in the financial markets and the System enjoys a healthy cash flow from contributions from members and cities.

In summary, we have not panicked and neither should you. Your pension benefit is defined, our investments are well diversified, and if economic history has taught us anything, it's that markets will rebound - and we all hope very soon.