

**Revenue Ruling**  
**No. 03-008**  
**December 22, 2003**  
**Individual Income Tax and Fiduciary Income Tax**  
**State Tax Exemption for Deferred Retirement Option Plan Self-Directed**  
**Sub-Accounts**

This revenue ruling addresses the applicability of the state tax exemption for Louisiana State Employees' Retirement System plans to the new self-directed sub-accounts within the Deferred Retirement Option Plan.

Act 818 of the 2003 Regular Session of the Louisiana Legislature amended and reenacted several provisions of Chapter 1, Title 11 of the Louisiana Revised Statutes of 1950 relative to the Deferred Retirement Option Plan (DROP) of the Louisiana State Employees' Retirement System (LASERS). These amendments create and provide for the administration of self-directed investment sub-accounts in DROP. The provisions of Act 818 will become effective on January 1, 2004.

After January 1, 2004, a DROP participant's contributions will be credited to the participant's sub-account. La. Rev. Stat. Ann. § 11:449(A). Once the contribution period ends, the balance of the participant's sub-account will be transferred to a self-directed sub-account. La. Rev. Stat. Ann. § 11:449(A)(2). Both the initial sub-account and the self-directed sub-account are within DROP. La. Rev. Stat. Ann. § 11:449(B). When the funds are transferred to the self-directed sub-account for the investment period, LASERS is authorized to hire a third party provider who shall be an agent of LASERS. La. Rev. Stat. Ann. § 11:449(B). Distributions from the self-directed sub-accounts, just like distributions from the current DROP sub-accounts, can only be made as either a lump sum payment from the account equal to the amount in the sub-account or as systematic disbursements from the sub-account. La. Rev. Stat. Ann. § 11:450(A)(1).

The self-directed sub-accounts will be managed by the third party provider in accordance with an agreement between the provider and LASERS. La. Rev. Stat. Ann. § 11:451.1. LASERS is in the process of soliciting bids from potential third party providers (TPAs) to manage the self-directed sub-accounts. The Solicitations for Offers for the TPAs provides that all distributions from the sub-accounts must be approved by LASERS, that the sub-accounts cannot be commingled with funds from any other source, and that all funds in the sub-accounts must remain within the LASERS trust.

Section 11:405 of the Louisiana Revised Statutes provides for a state tax exemption for benefits paid under the provisions of Chapter 1, Title 11.

§ 405 Exemption from execution; exception. Any annuity, retirement allowance or benefit, or refund of contributions, or any optional benefit or any other benefit paid or paid to any person under the provisions of this Chapter is exempt from any state or municipal tax and is exempt from levy and sale, garnishment, attachment, or any other process whatsoever, except as provided in R.S. 11:292, and is unassignable.

Chapter 1, Title 11 of the Louisiana Revised Statutes of 1950 is comprised of Sections 401 through 606. Act 818, which created the self-directed sub-accounts, amended and reenacted La. Rev. Stat.

A Revenue Ruling is written to provide guidance to the public and to Department of Revenue employees. It is issued under Section 61:III.101(C) of the Louisiana Administrative Code to apply principles of law to a specific set of facts. A Revenue Ruling does not have the force and effect of law and is not binding on the public. It is a statement of the department's position and is binding on the department until superseded or modified by a subsequent change in statute, regulation, declaratory ruling, or court decision.

Ann. §§ 11:447, 448(A), (C), and (D), 449, 450(B), (D)(3) and (4) and 451, and enacted La. Rev. Stat. Ann. §§ 11:450(A)(3) and (D)(6), 451.1, 451.2, 451.3 and 451.4, all of which are in Chapter 1 of Title 11. The self-directed sub-accounts will be administered by LASERS through a third party agent. The third party agent can only make distributions from these accounts in accordance with the provisions of La. Rev. Stat. Ann. §§ 11:447 through 451.4. Therefore, benefits paid from the self-directed sub-accounts are benefits paid under the provisions of Chapter 1 of Title 11 and are exempt from state taxation.

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