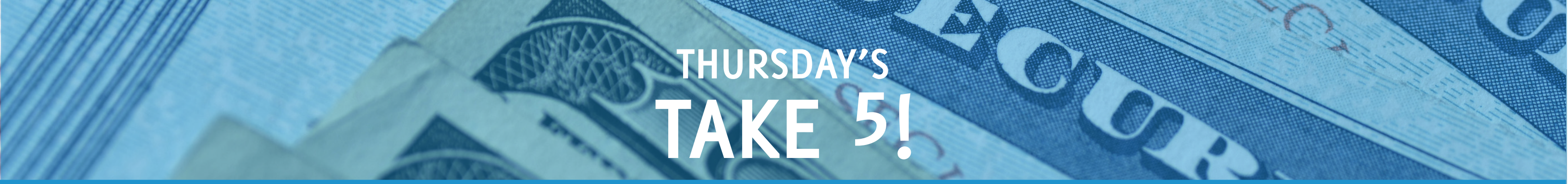

THURSDAY'S TAKE 5!

Ideally, public pension systems should provide a comprehensive retirement plan for system members and their families at a reasonable cost to the member, employer and taxpayer.

For years, the Louisiana Association of Business and Industry (LABI) has advocated for a more sustainable, cost-effective pension system for state employees. State government spending is up 44 percent over the past decade, and rising pension costs – particularly pension service debt and employer contributions – are straining state and local budgets. In fact, the employer contribution for the Louisiana State Employee Retirement System (LASERS) retirees alone has increased 83 percent over the last 10 years, costing an additional $324 million in State General Fund dollars in Fiscal Year 2016 than in Fiscal Year 2005. In this year's budget, LASERS will receive $700 million in State General Fund for employer contributions, further reducing available funds to address health care and higher education needs.

Although Louisiana has made small, yet significant, changes in reforming the public pension system, much more systemic reform is needed to better serve new workers and honor commitments to current employees and retirees. If a new structure is up for debate, policymakers should consider a design that encourages a fully funded system, reduces the prospect of unfunded liabilities and offers taxpayers greater protections against the negative impacts of a volatile financial market. LABI encourages the new Legislature and governor to consider these five recommendations as they attempt to design a retirement system that is affordable, sustainable and secure for Louisiana residents.

01

Begin to shift away from a defined benefit retirement plan.

In 2012, Louisiana attempted to follow national best practices by enacting a cash balance-hybrid retirement plan for new hires of the Louisiana State Employees Retirement System (LASERS), Teachers Retirement System of Louisiana (TRSL) and Louisiana State School Employees Retirement System (LSERS). The proposal combined the best features of defined benefit and defined contribution plans protecting workers, while simultaneously decreasing risks and cost to the state over time. Employees would receive an annual 12 percent pay credit toward their retirement account. The benefit would be directly tied to the amount earned in the market, ultimately protecting employees against market downturns. Much like the private sector's version of a 401K, the employee would contribute a designated percent of pay (8 percent) and the state as the employer would cover the remaining (4 percent). Thus, the retirement account would reflect the retiree's earned accumulated wealth rather than the traditional, employee's final average pay formula. Although this measure received legislative approval, the District and Supreme Courts ruled against creating the new system on a technicality. A new Legislature and administration should seriously consider passing similar legislation again, setting Louisiana on the right track for decades to come.

02

Identify comprehensive solutions to address the Unfunded Accrued Liability (UAL).

Currently the state owes $18 billion in legacy costs, leaving less money for current and future workers' benefits. Now over 80 percent of Louisiana's annual contributions go to paying this debt service rather than for new benefits. The state constitution was recently amended by the voters to require an annual appropriation of no less than 10 percent of any money designated in the official forecast as nonrecurring to be applied to the UAL. That is a good start, but new revenue alone will not responsibly close the gap created by decades of cost spikes and insufficient investment. Over time, more comprehensive solutions and efficiencies must be identified to ensure the debt is eliminated.

03

Adopt closed amortization schedules of 20 years or less.

The amortization process should assist in funding the UAL, rather than utilizing techniques that result in continuous growth in the debt. In an effort to avoid permanent negative amortization of the UAL, measures must be ratified that regulate the method of repayment. It should be structured to provide for amortization over a closed or fixed period or by a fixed date, rather than allowing unlimited restarts of the payment schedule. Transitioning from the current 30-year amortization period for gains and losses to a 20-year period and committing to a closed amortization plan will significantly expedite the recovery and health of the systems, bringing Louisiana one step closer to financial freedom.

04

Re-evaluate the cost-of-living adjustment (COLA) methods.

In 2014, policymakers made changes in the way COLAs are granted by the four major state retirement systems. Even though the newly adopted COLA method under Act 399 provides more sustainability and reduces the contributing factor to the UAL of each system, it can be circumvented by legislative action. Therefore, a hard look should be taken on how and when COLAs are granted by the systems. In lieu of the Experience Account function, legislators might consider developing a formula that would pre-fund the system by collecting funds throughout the employee's career, guaranteeing fiscally responsible COLAs will be available for future retirees.

05

Seek efficiencies in the administration of state retirement systems.

Louisiana taxpayers are supporting 13 public retirement systems, including four for state workers. In Fiscal Year 2015, the two largest systems spent roughly $16 million (LASERS) and $14 million (TRSL) on administrative expenses as well as nearly $150 million in investment expenses ($74 million each for LASERS and TRSL). The Louisiana Legislature passed a study resolution in 2011 to examine the combination of administrative and investment management services of the four statewide systems, which was a good initial first step, but resulted in no action. In the short-term, the Legislature and administration should require efficiencies where functions overlap. In the long-term, officials should consider consolidation, as independent organizations like the Public Affairs Research Council have long recommended.