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A Report from the Bureau of Governmental Research

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The Rising Cost of Yesterday

Metro Area Pension Costs and the Factors that Drive Them

BGR PENSION SERIES ■ PART 2

BGR Review Committee

BGR Project Staff

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Introduction

Like public employees nationwide, the overwhelming majority of local government workers in Jefferson, Orleans and St. Tammany parishes participate in defined benefit retirement plans. Such plans provide workers with a specified level of annual retirement payments until they (or, in some cases, their beneficiaries) die. While in most cases employees contribute portions of their salaries to these plans, government employers – and, by extension, taxpayers – must fund them, no matter how expensive they become.

Public pension plans across the nation have come under intense scrutiny as state and local governments have struggled with the financial fallout from the recession. In this report, BGR takes a look at the situation in the metro area's three most populous parishes.

It examines 18 defined benefit plans in which local government entities in Jefferson, Orleans and St. Tammany parishes participate (the Plans). BGR examines what the Plans cost the public in these parishes. It also compares the benefits they provide to those available in the private sector and benchmarks them against public sector plans.

This report is the second of a series on public pension plans. The first report, *Understanding Pensions: A Primer on Public Employee Pension Plans*, provided an introduction to the subject. It is available on BGR's website, www.bgr.org. The next report in the series will examine reform options.

Major Findings

BGR's research revealed the following:

- The costs associated with the Plans are large and rising.
- The Plans provide greater security and larger benefits than do the retirement savings vehicles available to most private sector employees.
- With one exception, the Plans are initially more generous than the median public sector retirement plan.
- Nearly all of the Plans initially provide larger benefits than are necessary to maintain one's quality of life in retirement.

The Cost to Local Government

The Plans are imposing significant financial burdens on local government bodies and the public that supports them. In 2010, the Plans cost residents and businesses in New Orleans $122 million. The public contributed $88 million in Jefferson Parish and $58 million in St. Tammany Parish. This equated to $861 per household in Orleans, $660 in St. Tammany and $519 in Jefferson Parish. On an inflation-adjusted basis, the pension costs were 9% higher in Orleans Parish than they had been a decade before. They were 33% higher in Jefferson Parish and 94% higher in St. Tammany Parish.

The local government entity with the highest pension bill is the City of New Orleans. In 2010, it spent $78 million to support pensions. The disproportionate cost is largely the product of the disastrous state of its pension system for city firefighters. In 2010, that system alone accounted for the majority of the city's pension costs: almost $54 million.

Most of the public funding for the Plans comes in the form of employer contributions. The employer contribution rates for 14 of the 18 Plans have at least doubled since 2000. In some cases, they have tripled or quadrupled. The employer contribution rate for the New Orleans firefighters' pension system has increased tenfold, and the actuarially required contribution now exceeds the payroll cost for firefighters.

The increasing cost of local government pension benefits is due in large part to a factor beyond the control of state and local government: the steep investment losses during the past decade. But other factors are also affecting the cost. They include long-standing unfunded liabilities and, in the case of at least one retirement system, poor funding decisions.

The generosity of the Plans is another contributing factor. The benefits available to local government employees far exceed what is available to most private sector employees. They also exceed national norms for the public sector.

How the Plans Compare to Private Sector Retirement Vehicles

The defined benefit plans available to local government employees in the three parishes differ radically from the retirement vehicles available to private sector workers. Nationwide, 36% of private sector workers do not have access to *any* employer-supported retirement plan. These workers must rely solely on Social Security and their own savings to meet their needs in retirement. Where private sector workers do have access to an employer-supported plan, it is usually a defined contribution plan.

This was not always the case. Until the mid-1980s, defined benefit plans were the norm in both the public and private sector. During the past 25 years, however, participation in defined benefit plans declined dramatically in the private sector and only modestly in the public sector.

An employer-sponsored defined contribution plan provides retirement benefits through an individual retirement account (IRA) funded by the employer or, more commonly, by both the employer and the employee. A defined contribution plan does not entitle the employee to a specified level of benefits throughout retirement. Rather, he receives only the value of his account – contributions made over the course of his participation, plus or minus investment gains or losses. The employer's obligation is limited to the contributions it made, and the employee bears the risk of investment losses. The employee also bears the risk that he will outlive his retirement savings.

This is in stark contrast to the defined benefit plans available to local government employees. In a defined benefit plan, retirees receive a specified annual benefit as long as they (and, in some cases, their beneficiaries) live, and the government employer, not the employee, bears the risk of investment losses. In short, public sector employees enjoy a level of financial security in retirement that is unavailable to most private sector workers.

In addition to providing greater financial security, the Plans are more generous than the savings vehicles available to private sector employees. To ascertain the relative generosity of the Plans and those saving vehicles, BGR analyzed the situation of a hypothetical employee who is hired today at $40,000 and retires after 30 years of service (Hypothetical Employee). First, it calculated the annual benefits that the Hypothetical Employee would receive under each Plan and, where applicable, Social Security. It then compared those annual benefits to the amounts that the Hypothetical Employee could expect to receive from an IRA and Social Security, provided he saved for retirement at the same rate as his public sector counterpart. (For a detailed explanation of the calculations and assumptions, see pp. 29 to 32 of the report.)

In all cases, the annual benefits payable to the Hypothetical Employee participating in a Plan would exceed those available to his private sector counterpart. The differences range from approximately $4,200 to nearly $20,000 a year.

By way of example, if the Hypothetical Employee were a public school teacher in Louisiana, he would receive an annual retirement benefit of $27,500. In the private sector, he could expect $23,300 a year in retirement, if his investments performed well enough. If the Hypothetical Employee were a participant in the New Orleans Sewerage & Water Board's Plan, he could look forward to an annual benefit of $47,400. His private sector counterpart with a similar saving pattern could expect $27,800 a year from Social Security and his IRA, if his investments performed well enough. BGR's estimates of public sector benefits apply only to the Hypothetical Employee. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service.

Most private sector employees will be in a more precarious position than the above examples suggest. As noted earlier, more than a third of the private workforce does not have access to employer-sponsored benefit plans. In addition, research indicates that the overwhelming majority of private sector employees are not making substantial contributions to their retirements. As a result, many private sector workers will rely heavily, if not exclusively, on Social Security. The projected

Social Security benefit for the Hypothetical Employee is $16,300 a year.

Put simply, private citizens are helping to pay for public sector retirement benefits that are far more generous and more secure than their own.

Some argue that generous public sector retirement benefits are necessary to offset wage differentials between the public and private sectors. BGR was unable to find any recent analyses of local differences. At the national level, there is general agreement that state and local public employees as a group are paid less than similarly qualified employees in the private sector. However, the research also suggests that the existence and extent of the wage gap varies by income level.[1]

Moreover, wages and pension benefits are part of the larger concept of total compensation, which covers wages and the full spectrum of employer-provided benefits, such as vacation, sick leave, and health and other forms of insurance. A comparison of the total compensation of public and private sector employees in the metropolitan area is beyond the scope of this report.

Comparing the Plans to Public Sector Medians

Not only are the benefits offered by the Plans far superior to those available to private sector employees, they are generous by public sector standards. In the initial years of retirement, the benefits paid by all of the Plans exceed national medians. To analyze the differences in benefit levels, BGR turned again to the Hypothetical Employee.

Before proceeding with comparisons, some information on the relationship between public pension plans and Social Security is needed. Unlike private sector workers, not all public sector employees participate in Social Security. In the three parishes, most local government workers do not. Pension plans for public employees who do not participate in Social Security (Unsupplemented plans) tend to pay higher benefits than those for Social Security participants (Supplemented plans).

How would our Hypothetical Employee fare under the median U.S. pension plans for public employees and the Plans covered by this report? The Hypothetical Employee would receive an annual benefit of $27,155 from the median U.S. Unsupplemented plan. He would receive an annual benefit of $21,497 from the median U.S. Supplemented plan. (For information on how the medians were calculated, see p. 24.)

All of the Plans covered by the report would provide benefits that exceed the relevant median – many by huge margins. Nearly three quarters of the Plans would provide the Hypothetical Employee with an annual benefit that is at least $5,800 larger than the relevant median. Under some Plans, the benefit would exceed the applicable median by $8,000 to $10,000.

The Multiplier Effect. Benefits are calculated by multiplying an employee's final average salary by his years of service and a percentage known as the multiplier. The multiplier is the most sensitive variable in the benefit formula. The higher the multiplier, the greater the retirement benefit that accrues in a year. Seemingly minor adjustments to a multiplier can have a significant impact. For example, an increase in the multiplier from 2% to 2.2% equates to a 10% larger retirement benefit.

The Plans' high benefit levels derive from their higher multipliers. The median U.S. Unsupplemented plan uses a multiplier of 2.4%, and the median U.S. Supplemented plan applies a multiplier of 1.9%. All of the Plans covered in this report use multipliers that exceed the applicable median, some by significant margins. For the 14 Unsupplemented Plans, the multipliers range from 2.5% to 3.5%. For the four Supplemented Plans, the multipliers range from 2% to 2.5%, with the latter multiplier increasing to 4% for years of service beyond 25.

Not only do higher multipliers result in larger retirement benefits, they allow employees to retire with the maximum benefit earlier. Once an employee reaches the maximum, he has little incentive to continue working. The earlier an employee retires, the more years he spends drawing benefits. This increases the cost to government of providing benefits. Members of most of the Plans can reach their maximum benefit eight to 18 years earlier than a member of the corresponding median U.S. plan.

Comparing Benefits to Contributions. Benefit amounts alone do not determine the generosity of a plan. In most cases, public employees contribute to their pension plans. This is true of nearly all local government workers in the three-parish area.

In order to assess the overall generosity of a plan, one must consider both the size of employee contributions and the benefits employees can expect in retirement. For example, while a plan may offer a particularly large annual retirement benefit, it may also require a correspondingly large employee contribution.

To correlate benefits and costs, BGR calculated the Hypothetical Employee's expected annual benefit as a percentage of his total pension contributions. The annual benefit payable to the Hypothetical Employee by the median U.S. Unsupplemented plan ($27,155) equals 25% of his total pension contributions. The benefit payable by the median U.S. Supplemented plan ($21,497) equals 36% of contributions.

By this measure, 17 of the 18 Plans yield benefits that are initially more generous than the national medians. Some are far more so. The open Plan for New Orleans firefighters is three times more generous than the relevant median plan. The Plans for registrars of voters, district attorneys and assessors are at least 50% more generous. Some employees receive the benefits without making any contribution at all. This group includes employees of the assessors' offices in Jefferson and St. Tammany parishes, employees of St. Tammany's clerk of court, and Jefferson Parish government employees hired before 1986.

In most cases, the relative generosity of the Plans will decline over time due to stringent policies governing cost of living adjustments (COLAs). Teachers, other school employees, some municipal employees and members of the state's retirement system will feel the impact quite early in retirement. But if history is a guide, the retirees in most of the Plans will be beyond age 90 or 100 before their cumulative benefits fall below the relevant median for public sector employees nationally.

Do the Plans Provide Adequate Retirement Benefits?

In an ideal world, a worker's retirement plan would produce sufficient income for him to maintain his quality of life in retirement. Due to lower expenses in retirement, the amount needed is usually less than pre-retirement income. Estimates range widely, from 70% to 94% of pre-retirement income, and they vary by income level. According to one oft-cited report, someone making $40,000 at retirement needs 85% of his pre-retirement income to maintain his quality of life.[2]

For an employee retiring at that income level in 2012 with 30 years of service (2012 Retiree), all but two of the Plans would initially provide benefits that exceed this benchmark level. Indeed, 10 of the Plans, together with Social Security where applicable, would provide the retiree with an annual benefit that approaches his pre-retirement compensation. Members of two other Plans – those for city workers in New Orleans and employees of the Sewerage & Water Board – would fare even better. Between their pensions and Social Security benefits, these workers would earn more in retirement than they did while working.

If the Plans granted COLAs at the same level and frequency as in the past, the benefits payable to the 2012 Retiree by eight of the Plans would be below the target replacement rate within 10 years of retirement. Nearly all of the other Plans would remain above that rate well into retirement.

Analysis and Conclusion

The Plans are consuming an increasing share of local government revenue in Jefferson, Orleans and St. Tammany parishes, which affects government's ability to deliver infrastructure and services. The recent recession, pre-existing unfunded liabilities and, in at least one case, poor funding decisions have all contributed to the problem. But so has the generosity of the Plans.

All but one of the Plans initially provide retirees with more generous benefits than the median public sector plans. While the relative generosity evaporates or declines over time, retirees in most of the Plans will be over 90 when their cumulative benefits fall below those offered by the median U.S. plan. In addition, all of the Plans provide benefits that are both more generous and more secure than those available to the typical private sector worker.

Unfortunately for local governments, there is no way to make the obligations that they have incurred in the past magically disappear. The Plans must pay down their unfunded liabilities and make promised benefit payments to retirees.

However, lawmakers at the state and local levels can craft careful reforms that over time provide benefits that are fair to both public sector retirees and the residents and businesses that help to support them.

Doing so will require lawmakers to perform a balancing act. On the one hand, it is unfair to ask workers in the private sector to help pay for public retirement benefits that are far more generous and secure than their own. On the other hand, the private sector at large is failing to provide for a secure retirement, and lawmakers should be wary of embracing private sector models too enthusiastically.

Lawmakers should avoid joining a race to the retirement bottom. But they should also explore options to eliminate excesses and create systems that best balance the dual goals of providing local government workers with a secure retirement and making smart use of public funds.

In the next installment of its pension series, BGR will analyze a range of possible reforms – from adjusting the factors that determine the generosity of the Plans to wholesale changes in the structure of benefits.

INTRODUCTION

During the past decade, retirement plans for state and local government workers across the nation experienced a drastic reversal of fortune. Having fallen from the heights of booming stock market investment earnings, many suffered serious losses and saw their liabilities skyrocket. As a result, state and local governments have had to use larger portions of their strapped budgets to pay for benefits promised long ago. In some cases, this has led to cuts in public services.

Now, many state and local governments and the taxpayers who support them are questioning the affordability of government retirement plans. Adding fuel to the fire is the stark contrast between retirement benefits for government workers and those available to the vast majority of workers in the private sector.

Looking for ways to stem rising costs, 43 states, including Louisiana, have enacted revisions to defined benefit retirement plans since 2009. While many reforms tinker at the margins of existing plans, a few governments have implemented more drastic measures that revamp retirement benefits for public employees.

In this report, BGR examines the costs that pensions impose on local governments in the metropolitan area's three most populous parishes: Jefferson, Orleans and St. Tammany. It also looks at the factors driving those costs: recent market declines, pre-existing unfunded liabilities and the generosity of benefits. To analyze generosity, the report compares the benefits offered to local government workers in the three parishes to each other and to state and local defined benefit plans across the U.S. It also compares the retirement situation of local government workers to that of their private sector counterparts.

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SCOPE AND LIMITATIONS

This report focuses on defined benefit plans offered by local governments and parochial offices in Jefferson, Orleans and St. Tammany parishes. For the most part, it is limited to open plans, which are still accepting new members. It includes closed plans for the limited purpose of analyzing costs.

BGR included plans that receive local tax revenues, either directly or indirectly through employer contributions. It did not include plans offered by government entities that rely heavily on contracts with the private sector to deliver services, such as the Regional Transit Authority and the Audubon Commission. With one exception, it also excluded plans offered by government entities supported largely through user fees or federal dollars, such as the New Orleans Aviation Board and the Public Belt Railroad. The one exception is the Sewerage & Water Board of New Orleans. BGR included that entity because it receives some tax revenue for drainage, and local residents and businesses have no choice but to pay sewer and water fees.

A number of local governments offer defined contribution plans. BGR did not include these plans because their impact on local government finance is insignificant compared to that of defined benefit plans. In 2010, governments in Jefferson, Orleans and St. Tammany parishes spent $268 million on defined benefit plans and only $3 million on defined contribution plans.

BGR presents data on a range of topics, including the pension costs borne by local governments, employee and employer contribution rates, and participation in deferred retirement programs. In each case, BGR presents the information for the most recent year for which complete data is available.

BACKGROUND

Like public employees nationwide, the vast majority of local government employees in Louisiana participate in defined benefit plans. A defined benefit plan provides workers with a specified level of annual retirement payments until they (or, in some cases, their beneficiaries) die. Benefits are generally calculated using years of service and a percentage of pay.

Defined benefit plans are funded through employer contributions, investment earnings and, usually, employee contributions. Some plans in Louisiana also receive revenue from dedicated taxes and other public sources. If the amounts contributed to the plan during an employee's years of service, combined with the plan's investment earnings, are insufficient to pay for the promised benefit, the employer must make up the difference. In addition, the State of Louisiana guarantees the benefits payable by the "state" plans.

This arrangement is in stark contrast to defined contribution plans, such as 401(k) and 403(b) plans, which are more prevalent in the private sector. Unlike defined benefit plans, defined contribution plans do not promise a specific benefit in retirement. It is the employee, not the employer, who bears the risk of investment losses. The flip side, of course, is that the employee can reap the benefits of an especially strong market in a defined contribution plan.

Local governments in the three parishes participate in 18 open defined benefit plans (the Plans) offered by 15 public retirement systems. Two of these Plans – those offered by Louisiana State Employees' Retirement System (Lasers) – will be closed to most new members effective July 2013. They will be enrolled in a cash balance plan instead.[3] New members of the Teachers' Retirement System of Louisiana (Teachers) who are employed by a higher education institution will also be enrolled in a cash balance plan starting in July of next year.

Three of the systems are "state" systems, nine are "statewide" systems, and three are local. Most of the systems have existed for decades. Eleven of the 15 systems were created before 1956. The oldest is the Teachers system, which dates back to 1936.

Local government entities in all three parishes participate in Plans offered by the three state systems. Government employers in Jefferson and St. Tammany parishes participate in all nine statewide systems. In Orleans Parish, employers participate in six of the statewide systems and three local systems. Table 1 provides a breakdown by parish. It also gives the shorthand names by which BGR will refer to each Plan.

State, Statewide and Local Plans in Perspective

The Plans collectively contain approximately 208,000 actively employed members throughout Louisiana. Nearly three-quarters of them are members of the three state systems: 86,600 in Teachers, 54,900 in Lasers and 12,900 in the Louisiana School Employees' Retirement System.[1]

The rest are members of the statewide or local systems. The statewide systems cover local personnel on a collective, statewide basis. They include systems for assessors, clerks of court, district attorneys, firefighters, municipal police, municipal employees, parish employees, registrars of voters and sheriffs. The largest of the statewide systems is the Parochial Employees' Retirement System, with more than 16,000 actively employed members.[2] The smallest is the Registrars of Voters Employees' Retirement System, at just 227 actively employed members.

The three local systems cover New Orleans firefighters, employees of the City of New Orleans (other than firefighters and police officers) and employees of the Sewerage & Water Board.

In 2011, the Plans paid benefits to approximately 152,000 retirees.[3] The average benefit paid by the Plans that year varied significantly. At the low end of the spectrum, Plan B of the Municipal Employees Retirement System paid $10,358 per retiree. The District Attorneys' Retirement System was at the high end, with an average benefit of $48,358.

Participants in most of the Plans are not covered by Social Security. (BGR refers to these Plans as Unsupplemented Plans.) Participants in four Plans – Teachers Plan B, Municipal Employees Plan B, the New Orleans Municipal Plan and the S&WB Plan – do participate in Social Security. (BGR refers to these Plans as Supplemented Plans.) For information on the Plans' membership, average salary and average benefits, see Appendix 1.

NOTES

1 The School Employees' retirement system serves school workers other than teachers, school administrators and school lunch workers. The Teachers' Retirement System of Louisiana has a regular plan for teachers and school administrations and Plans A and B for school lunch workers.

2 Plan A of the Parochial Employees Retirement System covers 13,975 members, none of whom participates in Social Security. Plan B covers 2,261 members that do participate in Social Security. Parochial Employees Retirement System of Louisiana, *2011 Comprehensive Annual Financial Report*, p. 13. No local government entity in Jefferson, Orleans or St. Tammany parishes participates in Plan B.

3 The count of retirees includes participants in deferred retirement programs. For a discussion of deferred retirement programs, see p. 22.

TABLE 1: RETIREMENT SYSTEMS IN WHICH LOCAL GOVERNMENTS PARTICIPATE, BY PARISH

SYSTEM	SHORTHAND NAME	Does at least one local government entity in the parish participate? Jefferson	Orleans	St. Tammany
State Systems				
Louisiana School Employees' Retirement System	School Employees	✓	✓	✓
Louisiana State Employees' Retirement System	Lasers	✓	✓	✓
Regular Plan	Lasers Regular	✓	✓	✓
Judges' Plan	Lasers Judges	✓	✓	✓
Teachers' Retirement System of Louisiana	Teachers	✓	✓	✓
Regular Plan	Teachers Regular	✓	✓	✓
Plan B	Teachers Plan B	✓	✓	
Statewide Systems				
Louisiana Assessors' Retirement System	Assessors	✓	✓	✓
Louisiana Clerks of Court Retirement & Relief Fund	Clerks of Court	✓	✓	✓
Louisiana District Attorneys' Retirement System	District Attorneys	✓	✓	✓
Louisiana Firefighters' Retirement System	Louisiana Firefighters	✓		✓
Municipal Employees' Retirement System	Municipal Employees	✓		✓
Plan A	Municipal Employees Plan A	✓		✓
Plan B	Municipal Employees Plan B			✓
Municipal Police Employees' Retirement System	Municipal Police	✓	✓	✓
Parochial Employees' Retirement System (Plan A)	Parochial Employees Plan A	✓		✓
Registrars of Voters Employees' Retirement System	Registrars of Voters	✓	✓	✓
Sheriffs' Retirement System	Sheriffs	✓	✓	✓
Local Systems				
Employees' Retirement System of the City of New Orleans	New Orleans Municipal		✓	
Employees' Retirement System of the Sewerage & Water Board of the City of New Orleans	S&WB		✓	
Firefighters' Pension and Relief Fund in the City of New Orleans - New Fund	New Orleans Firefighters (New)		✓	

In addition to the open Plans listed in the table, there are four closed plans: Plan A of the Teachers Retirement System of Louisiana, the Old Fund of the New Orleans Firefighters' Pension and Relief Fund, the Police Pension Fund of the City of New Orleans, and the Employees' Retirement System of Jefferson Parish. These plans no longer accept new members.

THE COST OF PENSIONS

Public support of pensions in the three parishes takes a number of forms: contributions paid by government employers, allocations from the state's Revenue Sharing Fund,[4] and dedicated taxes and fees. Employer contributions are by far the largest source. For each parish, approximately 90% or more of public funding for pensions comes in the form of required employer contributions.

In 2010, the public contributed $88.1 million to local government pensions in Jefferson Parish. That equates to $519 per household. In Orleans Parish, it contributed $122.3 million, or $861 per household. The public contribution in St. Tammany Parish amounted to $57.8 million, or $660 per household. Table 2 lists the source and amount of public funds spent on defined benefit plans in each of the parishes.

TABLE 2: COST OF PENSION PLANS BY PARISH, 2010 ($ MILLIONS)

	Jefferson	Orleans	St. Tammany
Employer Contributions	$79.0	$118.1	$51.3
Dedicated Portions of Property Taxes	8.8	1.6	6.4
State Revenue Sharing Funds	0.3	0.8	-
Other Taxes and Fees	-	1.8	-
Totals	**$88.1**	**$122.3**	**$57.8**

Source: BGR calculations using data from local government audits.

Note: The table includes the costs of the 18 open and four closed plans. Totals may not add due to rounding.

The parishwide costs have increased during the last decade. In 2001, the corresponding inflation-adjusted costs in Jefferson, Orleans and St. Tammany parishes were $66.1 million, $112.6 million and $29.8 million, respectively. In percentage terms, between 2001 and 2010 the cost to the public increased, after taking inflation into account, by 33% in Jefferson Parish, 9% in Orleans Parish and 94% in St. Tammany Parish. The increase in Orleans Parish would have been significantly higher, but for the precipitous post-Katrina decline in the number of employees participating in the Teachers and School Employees Plans.

In Jefferson Parish, employer contributions by local government entities accounted for 6.7% of local operating expenditures in 2010.[5] In St. Tammany, the contributions consumed 7.2% of operating expenditures. In Orleans, the employer contributions totaled 8.5% of operating expenditures. (For a breakdown of employer contributions by local government entities, see Appendix 2.)

Of all the local government entities in Orleans Parish, the City of New Orleans spent the most on pensions in 2010: $78 million, or 11.3% of its operating expenditures.[6] This was largely due to the disastrous condition of the City of New Orleans' pension system for local firefighters. Firefighter pensions cost the city almost $54 million in 2010. This situation is discussed in more detail on p. 15.

Rising Employer Contribution Rates

As noted earlier, the responsibility for covering pension costs ultimately falls to government employers. Each year, actuaries determine how much participating government employers must pay to meet pension costs accruing in that year and cover a portion of any unfunded accrued liabilities.

Under state and local laws, government employers participating in a Plan must contribute at the rate that an actuary determines is needed in order to keep the Plan sound.[7] The required rate is referred to as the actuarially required contribution, or ARC. For 2012, the ARC for nine of the Plans exceeded 20% of payroll. The ARC

TABLE 3: EMPLOYER CONTRIBUTION RATES AS A PERCENTAGE OF PROJECTED PAYROLL, 2012 AND 2000

Plan	2012	2000
New Orleans Firefighters (New)	107.3%	11.6%
Lasers Judges	30.5	12.3
School Employees	28.6	6.0
Municipal Police*	26.5	9.0
Lasers Regular	25.6	12.3
Teachers (Regular and Plan B)	23.7	15.2
Louisiana Firefighters*	23.3	9.0
New Orleans Municipal	20.7	7.7
S&WB	18.7	14.9
Clerks of Court **	17.3	10.0
Municipal Employees Plan A	16.8	5.8
Parochial Employees Plan A	15.5	7.75
Registrars of Voters	15.5	0.0
Sheriffs	13.8	5.0
Assessors	13.5	5.8
District Attorneys	9.8	0.0
Municipal Employees Plan B	8.0	4.5

*This reflects the rate for employees with earnings above the poverty level. Employers must contribute at higher rates for those earning at or below the poverty level.
** The ARC for the Clerks of Court in 2012 was 17.0%. The system elected to pay at the higher rate of 17.3%.

Sources: Systems' actuarial valuation reports and annual financial reports; Louisiana Legislative Auditor, *2011 Actuarial Report on Louisiana Public Retirement Systems*, April 2012; and Employees' Retirement System of the City of New Orleans, meeting minutes of December 21, 2011, p. 2.

for all but two of them exceeded 13% of payroll.

The ARCs have risen sharply in recent years. For 14 of the 18 Plans, they have at least doubled since 2000. The contribution rate for the New Orleans Firefighters (New) Plan has increased nearly tenfold, to 107% of payroll. Some other contribution rates have tripled or quadrupled. The District Attorneys and Registrars of Voters Plans,

TABLE 4: DEDICATED 2012 AD VALOREM TAX CONTRIBUTIONS TO STATE AND STATEWIDE RETIREMENT PLANS

Pension Plan	Jefferson & St. Tammany	Orleans*
Assessors**	.25%	.25%
Clerks of Court	.25%	.09%
District Attorneys	Up to .2%	Up to .2%
Municipal Employees (Plans A and B)	.25%	0
Parochial Employees	.25%	0
Registrars of Voters	.0625%	.0625%
Sheriffs	.5%	.225%
Teachers (Regular and Plan B)	1%	0
TOTAL	**2.763%**	**0.828%**

* The percentages for the Assessors, Clerks of Court, District Attorneys and Sheriffs Plans in Orleans Parish are the negotiated rates for 2012, not those called for in the Louisiana Revised Statutes. The percentage for the Registrars of Voters Plan is the statutory rate.
** The tax base includes homestead-exempt property.

Source: Louisiana Revised Statutes and information provided by the City of New Orleans' finance department.

which needed no employer contributions in 2000, now have rates of 9.75% and 15.5%, respectively.

Other Public Costs

Although employer contributions make up by far the largest share of the public's pension costs, taxpayers also support pensions through dedicated local revenue streams. All but five of the Plans receive support from a dedicated portion of parish property taxes, an allocation from the state's Revenue Sharing Fund, or dedicated shares of other taxes and fees. As a result of the dedication of property taxes to pension plans, tax recipient bodies are forced to support the retirement benefits offered by separate parochial offices, as well as their own.

In Jefferson and St. Tammany, 10 of the Plans receive dedicated portions of property taxes. These dedications total 2.76% of taxes in both parishes. (See Table 4.) In 2010, they cost Jefferson Parish taxpayers $8.8 million, the equivalent of 2.7 mills of property taxes.[8] In St. Tammany Parish, the total was $6.4 million (the equivalent of 4.1 mills).[9]

State law dedicates a total of 1.5% of parish property taxes in Orleans Parish to the Assessors, Clerks of Court, District Attorneys, Sheriffs and Registrars of Voters Plans. However, for years the City of New Orleans, which is the tax collector for Orleans Parish, did not remit the required tax contributions to them. Recently, the city reached agreements regarding future payments with all systems except the Registrars of Voters. The agreements call for contributions equal to 0.77% of property taxes this year ($3.1 million).[10] The contributions will increase slightly over several years, rising to 0.79% of property taxes by 2018.

For a discussion of the Revenue Sharing Fund and other taxes and fees that support pensions, see Appendix 3.

The property taxes, revenue sharing funds, and other taxes and fees dedicated to retirement plans reduce government employers' actuarially required contributions. Some Plans benefit from these sources much more than others do. (See Table 5.) Chief among them is the Assessors Plan, which received 57.2% of its contributions from these sources.

TABLE 5: OTHER PUBLIC SUPPORT, BY SOURCE (2011)

	Revenue (in Millions)				
Plan	Property Tax	Revenue Sharing	Insurance Tax*	2011 Total**	% of Total Plan Contributions***
Sheriffs	$15.9	$0.4	$15.4	$31.8	18.6%
Teachers (Regular and Plan B)****	$30.3	0	0	$30.3	2.5%
Louisiana Firefighters	0	0	$21.6	$21.6	27.2%
Municipal Police	0	0	$15.4	$15.4	14.6%
Assessors	$10.6	$0.4	0	$10.9	57.2%
Clerks of Court	$8.1	$0.3	0	$8.4	27.6%
Parochial Employees Plan A	$7.0	$0.2	0	$7.2	4.6%
District Attorneys	$6.1	$0.1	0	$6.3	41.2%
Municipal Employees Plan A	$4.8	$0.1	0	$4.9	11.4%
Registrars of Voters	$1.9	$0.1	0	$2.0	41.3%
Municipal Employees Plan B	$1.9	0	0	$2.0	20.6%
New Orleans Firefighters (New)	0	0	$0.6	$0.6	4.4%
Lasers (Regular and Judges)****	0	0	0	0	0%
School Employees	0	0	0	0	0%
New Orleans Municipal	0	0	0	0	0%
S&WB	0	0	0	0	0%

* The insurance tax proceeds paid to the New Orleans Firefighters (New) Plan come from a 2% tax imposed on premiums paid to out-of-state insurers doing business in Louisiana. See La. R.S. 22:342 through 22:349. The insurance tax proceeds paid to the Louisiana Firefighters, Sheriffs and Municipal Police Plans come from a separate tax, levied at 0.7% on all property and casualty insurance premiums paid in the state. La. R.S. 22:1476.
** Totals may not add due to rounding.
*** Total Plan Contributions includes all revenue sources except investment income and gains.
**** Teachers and Lasers report the financial results for their various Plans on a combined basis.

Source: System audits for 2011.

The Assessors Plan also far outpaced the other Plans when dedicated tax and other revenues are viewed per benefit recipient.[11] Assessors received nearly $8,700 annually per benefit recipient. The District Attorneys ($5,100), Registrars of Voters ($5,000), Louisiana Firefighters ($3,500) and Clerks of Court ($2,500) Plans also received significant amounts annually per benefit recipient.

The Bottom Line on Pension Costs

Pension obligations are imposing a growing burden on local government entities in Jefferson, Orleans and St. Tammany parishes. In 2010, parishwide pension costs totaled $88 million, $122 million and $58 million, respectively. Compared to 2001, those costs increased on an inflation-adjusted basis by 33% in Jefferson Parish, 9% in Orleans Parish and 94% in St. Tammany Parish.

Actuarially required contribution rates for local government employers have in most cases spiked during the last decade. They have at least doubled for more than three-quarters of the Plans. For half, the rates exceed 20% of payroll. The contribution rate for the New Orleans Firefighters (New) Plan, 107%, is the most startling rate of all.

The next two sections explore the factors driving pension costs in the three parishes.

TWO COST DRIVERS: THE MARKET AND UNFUNDED LIABILITIES

The increasing cost of local government pension benefits is due in large part to a factor beyond the control of state and local government: the sharp investment losses during the past decade. But other factors, such as pre-existing unfunded liabilities, also affect costs.

Market Decline

Investment losses in the early 2000s and again during the recent economic recession eroded Plan assets and weakened the health of the Plans – forcing employers to make larger contributions to help plug the gap. The impact of these market declines is evident in the Plans' funded ratios, a common measure of plan health.

The funded ratio compares the actuarial value of a plan's assets to its actuarial accrued liability. The actuarial accrued liability is a measure of the future benefits attributable to past service by current and former employees and retirees. A plan that has enough assets to cover all of its obligations is said to be fully funded. This does not mean that further contributions are no longer required, but rather that the plan is funded at the appropriate level on the date of the actuarial valuation.

The U.S. Government Accountability Office (GAO) considers a funded ratio of 80% or above to be sound for state and local public pension plans.[12] The American Academy of Actuaries points out that no single level of funding should be used as a defining line between a healthy and an unhealthy plan. It recommends analyzing how the funded ratio has changed over time and the burden the plan places on government sponsors. Finally, it notes that all plans should strive for 100% funding.[13]

The average funded ratio for large state plans nationally was 77% in 2010, having fallen from 100% in 2001.[14] The Plans' funded ratios have generally followed investment market fluctuations. In the late 1990s, all but three of the Plans were above the 80% benchmark, and several were funded at 100% or more. The funded ratios dropped as markets declined in the early 2000s, rebounded in part with the upturn in the markets in the middle of the decade, then fell again in the recent recession.[15]

Today, all but one of the Plans have a lower funded ratio than they did in 1999. Only six of the Plans are more than 80% funded. Seven, including the Plans offered by the three state systems, have funded ratios under 60%. This places them well below the 80% benchmark and the 77% national average. For an explanation of how BGR calculated the Plans' funded ratios and an illustration of how those ratios have changed since 1999, see Appendix 4.

Unfunded Accrued Liabilities

While recent market losses have contributed significantly to current pension costs, some Plans are struggling with unfunded accrued liabilities (Unfunded Liabilities) that pre-date the recent market crash. In some cases, the Unfunded Liabilities date back many years.

Prior to voter approval of a constitutional amendment in 1987 mandating that the state and statewide Plans

The New Orleans Firefighters Pension Debacle

The New Orleans Firefighters' Pension and Relief Fund imposes disproportionately large annual costs on the City of New Orleans. In 2011, they totaled $51.4 million.

The system consists of two separate funds: the New Fund and the Old Fund. The Old Fund covers firefighters who were employed prior to January 1, 1968. It contains no actively employed members. The New Fund covers those hired since then.

For years, the city failed to save money to pay for member benefits under the Old Fund. Instead, it funded benefits on a pay-as-you-go basis. As the number of retirees grew and the number of active employees in the fund dwindled, the city's payments increased.

In 2000, in an attempt to ease this burden, the city made an ill-fated decision to play the market. It issued $170.7 million in 30-year bonds to create a trust to pay for the benefits and administrative costs of the Old Fund. In theory, the trust and its investment income would pay for the benefits, and the city would only have to cover debt service.

However, the trust achieved only modest returns, and after nine years of paying benefits, it was depleted.[1] Since 2010, the city's General Fund has shouldered both debt service on the bonds and the annual costs of the Old Fund. In 2011, those expenses totaled $40 million.[2] The Old Fund has $157 million in unfunded liabilities, and nearly $116 million in principal remains outstanding on the bonds. (The city recently refunded the bonds in an effort to avoid a looming balloon payment and improve the city's credit rating.) Since the Old Fund has virtually no assets and no active members to infuse it with cash, the city is on the hook for satisfying all of the debt and benefit obligations associated with the Old Fund.

The New Fund of the New Orleans Firefighters' system covers firefighters first employed on or after January 1, 1968. It, too, is in poor shape. By the end of 2011, the New Fund was only 40% funded, a level well below the GAO's benchmark of 80%.

The New Fund finds itself in this position for several reasons. First, during the last 20 years its investments have underperformed its assumed rate of return. Since 1992, the New Fund has averaged an actuarial annual rate of return of 5.5%, short of its target rate of 7.5%. Since 2002, the New Fund has earned an average return of only 2%.[3]

Second, the system's liabilities have ballooned in recent years due to a judgment ordering the city to give the firefighters salary increases mandated by state law.[4] The city had ignored the mandate since 1979. These salary increases boost the final average compensation upon which retiree benefits are calculated.

Third, the city has failed for three years to appropriate the full actuarially required contribution. In 2010, the city contributed just $10.6 million of the $13.9 million required that year.[5] In 2011 and 2012, the city contributed $11.4 million each year, well short of the $23.9 million and $28.9 million required.[6] By underfunding the Plan, the city is expanding the gap between the New Fund's assets and liabilities. It is pushing the funding burden further into the future.

The New Orleans Firefighters system has sued the city for failing to make the actuarially required contribution. The system is seeking a court order requiring the city to contribute an additional $17.5 million in 2012.[7]

NOTES

1 Information provided to BGR by the City of New Orleans Finance Department, August 20, 2012.

2 According to the city's finance department, the debt service on the pension bonds totaled $19.66 million in 2011. The city's appropriation to cover retiree benefits for the Old Fund in 2011 totaled $20.38 million. New Orleans Firefighters' Pension and Relief Fund, *2011 Comprehensive Annual Financial Report*, p. 5.

3 BGR calculations based on actuarial rates of investment return found in New Orleans Firefighters' Pension and Relief Fund, *Actuarial Report Dated January 1, 2012*, p. 24.

4 *New Orleans Firefighters Local 632, et al versus City of New Orleans, et al*, No. 2003-CA-1281 (La. App. 4 Cir. 2004), 876 So. 2d 211.

5 See Firefighters' Pension and Relief Fund of the City of New Orleans, *2010 Comprehensive Annual Financial Report*, p. 8; and Firefighters' Pension and Relief Fund of the City of New Orleans, *Actuarial Valuation Report as of January 1, 2009*, p. 5. The actuarial report required a contribution of $14.5 million in 2010. The New Orleans Firefighters system reduces its request to the city by the revenue expected from a tax on out-of-state insurers.

6 Firefighters' Pension and Relief Fund of the City of New Orleans, *2011 Comprehensive Annual Financial Report*, p. 8; and City of New Orleans, *2012 Adopted Budget*, pp. 90-91. For the actuarially required contribution rates applicable in 2011 and 2012, see the actuarial reports dated January 1, 2010, and January 1, 2011, for the Firefighters' Pension & Relief Fund of the City of New Orleans. The actuarial reports called for contributions of $24.5 million in 2011 and $29.4 million in 2012. The New Orleans Firefighters system reduces its request to the city by the revenue expected from a tax on out-of-state insurers.

7 Petition for Writ of Mandamus, *New Orleans Firefighters' Pension and Relief Fund v. City of New Orleans,* No. 2012-7061, Civil District Court, Parish of Orleans (July 19, 2012).

attain and maintain actuarial soundness,[16] public employers routinely underfunded these pension Plans. The amendment required them to make actuarially determined contributions to their Plans each year. It also required them to pay off the Unfunded Liabilities that existed as of 1988 within 40 years, by 2029.

Instead of requiring level-dollar amortization (the method used for a classic, fixed-rate mortgage), the Legislature established backloaded payment schedules for most of the state and statewide Plans to retire their Unfunded Liabilities.[17] Because of the backloading, some Plans' payments to cover their past Unfunded Liabilities are rising. Teachers and Lasers, which have the largest pre-1989 Unfunded Liabilities, face substantial increases. Teachers' annual payment will increase from $522 million in 2012 to $893 million in 2028. In the case of Lasers, the annual payment is expected to rise from $244 million to $393 million over that period.[18]

The Plans have developed additional Unfunded Liabilities on top of the decades-old ones. A number of factors have contributed to this. They include investment losses, changes in assumptions, benefit enhancements and unfunded cost of living adjustments (COLAs). For example, since 1992, COLAs have added $833 million to Lasers' Unfunded Liabilities and $1.74 billion to those of Teachers.[19] For information on the Plans' Unfunded Liabilities, see Appendix 5.

For at least one of the Plans, past funding decisions have also contributed to Unfunded Liabilities. Rather than making actuarially required contributions each year, the City of New Orleans historically covered the benefits for the Old Fund of the New Orleans Firefighters' Pension and Relief Fund on a pay-as-you-go basis. As the annual cost of paying benefits increased, the city compounded its troubles in 2000 by issuing $170.7 million in bonds to fund a trust to pay for the Old Fund's benefits and administrative costs. In theory, the trust would generate enough revenue to pay for the benefits, and the city would only have to cover debt service on the bonds. But the trust's investment returns fell short, and it was depleted within 10 years. Now, the city is paying both the debt service and the Old Fund's annual benefits out of its General Fund. For a more in-depth discussion of the problems confronting the New Orleans Firefighters system, see the sidebar on p. 15.

THE THIRD COST DRIVER: PLAN GENEROSITY

Beyond the effects of market declines, unfunded liabilities and poor funding decisions, there is another key driver of pension costs: the generosity of the Plans.

The factors that determine the generosity of a defined benefit plan include: the contribution rates for employees, the benefit formula, eligibility requirements and the process for granting cost of living adjustments. This section reviews these factors for the Plans and compares them to those of state and local pension plans throughout the U.S. It also compares the benefits provided by the Plans to those available to most private sector workers.

Before proceeding with comparisons, some information on the relationship between public pension plans and Social Security is needed. Unlike private sector workers, not all public sector employees participate in Social Security. In the three parishes, most local government workers do not. Pension plans for public employees who do not participate in Social Security (Unsupplemented plans) tend to pay higher benefits than those for Social Security participants (Supplemented plans).

Employee Contributions

For most of the Plans, employees are required to contribute a percentage of their salaries. The contribution rates are set in most cases by state and local laws.[20] During the past 25 years, employee contribution rates have increased somewhat for 11 Plans, decreased for one and remained the same for six others. In some cases, the increases apply only to employees hired after a certain date. (See Table 6 for the Plans' employee contribution rates.)

Nationally, the median contribution rate for Unsupplemented plans was 9% in 2010, the most recent year for which data are available.[21] The median rate for new members of the Unsupplemented Plans covered in this report is currently 8.1%. The rates for those Plans range from 13% for Lasers Judges to 6% for New Orleans Firefighters (New).

Because employees who participate in Social Security pay Social Security taxes, their contribution rates are typically lower than the rates for those who do not.

TABLE 6: EMPLOYEE CONTRIBUTION RATES, 2012 AND 1987

PLAN	2012	1987
Unsupplemented Plans:		
Lasers Judges	Judges elected on or after 1/1/2011 pay 13%, while all others pay 11.5%.	11%
Sheriffs	10%	8%
Louisiana Firefighters*	10% if income is above poverty level, 8% if income is at or below poverty level.	8%
Municipal Police*	10% if income is above poverty level, 7.5% if income is at or below poverty level.	7%
Parochial Employees Plan A	9.5%	9.25%
Municipal Employees Plan A	9.25%	9.25%
NATIONAL MEDIAN	**9%**	
Clerks of Court	8.25%	7.5%
Assessors	8%	7%
Teachers Regular	8%	7%
School Employees	8% for those hired on or after 7/1/2010 and 7.5% for those hired prior to that date.	7%
Lasers Regular	8% for those hired on or after 7/1/2006 and 7.5% for those hired prior to that date.	7%
District Attorneys	7%**	7%
Registrars of Voters	7%	9%
New Orleans Firefighters (New)	6%. No contribution is required of those with more than 20 years of service.	6%. No contribution was required of those with 20 or more years of service at age 50 and above.
Supplemented Plans:		
Municipal Employees Plan B	5%	5%
Teachers Plan B	5%	5%
New Orleans Municipal	5%***	4%
NATIONAL MEDIAN	**5%**	
S&WB	4%****	4%

* The rate for members earning at or below the poverty level is fixed. The rate for members earning above the poverty level can range from 8% to 10% for Louisiana Firefighters and from 7.5% to 10% for Municipal Police. See La. R.S. 11:62(3) and (6).
** The rate for all employees will increase to 8% in 2013. La. Acts 2012, Reg. Sess., No. 515.
*** The rate for all employees will increase to 6% in 2013.
**** The rate for all employees will rise to 5% in 2013.

Sources: For 2012 employee contribution rates, see the Louisiana Revised Statutes, City of New Orleans Code of Ordinances, and the Rules and Regulations of the Employee Retirement System of the Sewerage & Water Board. For the 1987 employee contribution rates for the state and statewide systems, see Public Affairs Research Council of Louisiana, Inc., Legislative Bulletin, Vol. 36, No. 3, May 13, 1988. For the local systems, BGR obtained their 1987 employee contribution rates directly from the systems.

Three of the four Plans with employees who participate in Social Security (Teachers Plan B, Municipal Employees Plan B and New Orleans Municipal) currently have contribution rates of 5%. This tracks the national median rate for such plans.[22] Next year, the employee contribution rate for the S&WB will rise to that level. The rate for New Orleans Municipal will increase to 6%.[23]

State law gives employers in three Plans – Assessors, Clerks of Court and Sheriffs – the option of paying all or part of their employees' contributions.[24] The assessors in Jefferson and St. Tammany parishes and the St. Tammany Parish Clerk of Court have chosen to pay the entire employee contribution for all of their employees. The Jefferson Parish Sheriff pays 70% of the required employee contribution for employees hired before July 1999.[25] The Jefferson Parish general government pays the entire employee contribution for employees hired prior to 1986.[26]

The Benefit Levers

For all but one of the Plans, the benefits paid to retirees are calculated using a formula set forth in law.[27] The key variables in the formula are: the member's final average compensation, the number of years of credited service, and the Plan's benefit multiplier. To determine a member's retirement benefit, his final average compensation is multiplied by the applicable multiplier and years of service:

Benefit = Final Average Compensation
x Multiplier x Years of Service.

Final Average Compensation. Final average compensation is based on an employee's average earnings over a specified period of time, using his highest consecutive years of earnings. Shorter compensation periods generally translate into higher retirement benefits, because they pick up a narrower range of the highest earnings.

Nationwide, 56% of state and local government workers participate in defined benefit plans with a three-year final average compensation period, 22% in plans with a five-year period and 6% in plans with a one-year period.[28]

Most of the Plans use a final average compensation period of 60 months for new members. The exceptions are the New Orleans Firefighters (New) Plan, which uses 48 months, and the District Attorneys, Louisiana Firefighters, Municipal Police, New Orleans Municipal and S&WB Plans, which use 36 months. The District Attorneys and New Orleans Municipal Plans will soon transition to a 60-month period.[29]

For the purposes of calculating final average compensation, most state and statewide Plans cap all their members' year-over-year salary increases at levels ranging from 10% to 25%.[30] The caps help to prevent any steep spike in salary at the end of an employee's service from inflating his pension benefit. The three local Plans – New Orleans Municipal, S&WB and New Orleans Firefighters (New) – do not have caps.

The shift to a five-year final average compensation period for new members of most of the Plans will reduce future pension costs, but only slightly. For a worker who receives 3% salary increases each year, the change will decrease his annual retirement benefit by 2.9%.[31] In addition, the savings will take a long time to materialize since, in most cases, the reforms apply only to recent and future hires.

Benefit Multipliers. The more significant and sensitive variable in the benefit formula is the multiplier. The higher the benefit multiplier, the greater the retirement benefit that accrues in a year.

Seemingly minor adjustments to a multiplier can have a significant impact. For example, increasing the multiplier from 2% to 2.2% results in a 10% larger retirement benefit.[32]

Nationwide, the median benefit multiplier for Unsupplemented plans is 2.4%. The median benefit multiplier for Supplemented plans is 1.9%.[33]

Plans for police and firefighters tend to provide higher multipliers than plans for other government workers.[34] The work life of public safety employees is typically shorter than normal, due to the hazards and physical demands of their jobs. These workers face elevated risks of death, injury and illness on the job compared to the average worker.[35]

TABLE 7: BENEFIT MULTIPLIERS FOR NEW MEMBERS, 2012

PLAN	MULTIPLIER
Unsupplemented Plans:	
District Attorneys	3.5%
Lasers Judges	3.5
Assessors	3.33
Louisiana Firefighters	3.33
Municipal Police	3.33
Registrars of Voters	3.33*
Clerks of Court	3
Municipal Employees Plan A	3**
Parochial Employees Plan A	3
Sheriffs	3. For those with 30 or more years of service, the multiplier changes to 3.33 for all years.
New Orleans Firefighters (New)	2.5 for first 12 years of service, plus 3.33 for all years thereafter. For those with 30 or more years of service, the multiplier changes to 3.33 for all years.
Teachers Regular	2.5
School Employees	2.5
Lasers Regular	2.5
NATIONAL MEDIAN	**2.4**
Supplemented Plans:	
New Orleans Municipal	2.5 for the first 25 years of service. 4 for each year thereafter.
S&WB	2.5 for the first 25 years of service. 4 for each year thereafter.
Municipal Employees Plan B	2**
Teachers Plan B	2
NATIONAL MEDIAN	**1.9**

* Starting in 2013, the multiplier for new members of the Registrars of Voters Plan will be reduced to 3%. However, if a new member accrues 30 years of service, the multiplier will change to 3.33% for all years. La. Acts 2012, Reg. Sess., No. 719.
** Elected officials in the Municipal Employees Plans receive an additional 0.5%.

Sources: Plan financial statements; Code of Ordinances of the City of New Orleans, Sec. 114-204(2); Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board of New Orleans, Sec. 6.1(b); and BGR calculations based on data presented in the Public Fund Survey for Fiscal Year 2010, www.publicfundsurvey.org.

BGR was unable to find aggregate data on the multipliers provided by public safety plans in the U.S. A sampling it conducted of 20 Unsupplemented plans for public safety personnel produced a median multiplier of 2.5%, slightly above the national median of 2.4% for all Unsupplemented plans.

All of the Plans use multipliers that exceed the relevant national median, some by significant margins. (See Table 7.) The multiplier used by the District Attorneys and Lasers Judges Plans, 3.5%, is 46% higher than the national median. The multiplier used by the Assessors, Louisiana Firefighters, Municipal Police and Registrars of Voters Plans, 3.33%, exceeds it by almost 40%.

These large multipliers have significant impacts on benefit levels. Take, for example, an employee who is hired today at a salary of $40,000 and retires after 30 years of service (Hypothetical Employee). If the Hypothetical Employee were a member of the median U.S. Unsupplemented plan, he would receive an annual benefit of $27,155. As a member of the Louisiana Firefighters, Municipal Police and New Orleans Firefighters (New) Plans, he would receive an annual benefit of more than $37,000.[36] As a member of the Assessors, District Attorneys, Lasers Judges, Registrars of Voters and Sheriffs Plans, he would receive an annual benefit of roughly $36,600.

Maximum Benefit. All of the Plans allow members to earn benefits equal to 100% of their final average compensation. As a result, local government workers in the metro area can earn almost as much in retirement as they did while working, provided they work long enough.

The Plans are similar to most other public retirement plans in this regard. A recent study of 87 state retirement plans found that over three quarters had either a 100% cap or no cap at all.[37] Nearly one quarter of them imposed caps that ranged from 53% to 90% of final average compensation.

However, thanks to the Plans' generous benefit multipliers, local government employees in the three parishes can reach the maximum benefit more quickly than their peers around the country. In most cases, the difference is striking.

A member of the median U.S. Unsupplemented plan would have to work 41.7 years before earning his maximum benefit. Locally, new members of the District Attorneys and Lasers Judges Plans would earn the maximum benefit in 28.6 years – 13 years earlier than the national median for Unsupplemented plans. Members of the Assessors, Louisiana Firefighters, Municipal Police, New Orleans Firefighters (New), Registrars of Voters and Sheriffs Plans would reach the maximum in 30 years, almost 12 years earlier than the national median.

TABLE 8: YEARS OF SERVICE NEEDED FOR A NEW MEMBER TO HIT PLAN MAXIMUM (UNSUPPLEMENTED PLANS)

Unsupplemented Plans	Years of Service Needed for 100% Income Replacement
District Attorneys	28.6
Lasers Judges	28.6
Assessors	30
Louisiana Firefighters	30
Municipal Police	30
New Orleans Firefighters (New)	30
Registrars of Voters	30
Sheriffs	30
Clerks of Court	33.3
Municipal Employees Plan A	33.3 (28.6 for elected officials)
Parochial Employees Plan A	33.3
School Employees	40
Lasers Regular	40
Teachers Regular	40
NATIONAL MEDIAN	**41.7**

Source: BGR calculations.

For information on the other Unsupplemented Plans, see Table 8.

Employees have no financial incentive to continue working for their government employer once they reach the maximum income replacement rate. Requiring longer service to reach the maximum (by lowering the multiplier) is a way to encourage employees to continue working. It can also reduce the length of time an employee receives benefits, and the cost of providing them.

A member of the median U.S. Supplemented plan would need 52.6 years of service to earn a benefit equal to 100% of his final average compensation, 11 years more than his peer in the median U.S. Unsupplemented plan. The longer period is due to the former's smaller multiplier.

Thanks to multipliers that exceed this national median, members of the New Orleans Municipal and S&WB Plans would reach the maximum benefit in 34.4 years, a stunning 18 years earlier than members of the median U.S. Supplemented plan. Elected officials in Municipal Employees Plan B would reach it in 40 years. Other members of Municipal Employees Plan B and Teachers Plan B would reach it only slightly earlier than a member of the median U.S. plan. (See Table 9.)

TABLE 9: YEARS OF SERVICE NEEDED FOR A NEW MEMBER TO HIT PLAN MAXIMUM (SUPPLEMENTED PLANS)

Plan	Years of Service Needed for 100% Income Replacement
New Orleans Municipal	34.4
S&WB	34.4
Teachers Plan B	50
Municipal Employees Plan B	50 (40 for elected officials)
NATIONAL MEDIAN	52.6

Source: BGR calculations.

Eligibility. To begin collecting benefits, an employee must meet eligibility requirements based on years of service or a combination of age and years of service. These requirements affect the length of time an employee receives benefits, and thereby the cost of providing them.

Most Plans offer multiple paths to eligibility. For example, the District Attorneys Plan allows retirement with 10 years of service at age 60, 24 years of service at age 55 or 30 years of service at any age.[38] Typically, the older the employee, the fewer the years he must have worked to become eligible to retire. For a summary of each Plan's eligibility requirements for new members, see Appendix 6.

Members of the Plans can retire and collect benefits at an earlier age than can private sector employees dependent on Social Security. The age for receiving full Social Security benefits is 66 for employees born after 1943. It rises to 67 for employees born after 1959.[39] Workers can receive a reduced Social Security benefit at age 62. Those with individual retirement accounts (IRAs) can begin withdrawing funds without penalty at age 59½.

By contrast, nine of the Plans allow a member to retire at any age, assuming he achieves a certain number of years of service (25 or 30 years, depending on the Plan).[40] This makes it possible for an employee who begins work immediately after high school to retire in his forties. Of the nine Plans that require a member to reach a certain age before collecting benefits, five offer benefits as early as age 60, three offer them by age 55, and one offers them at 50.[41]

Allowing public safety personnel to collect benefits at an early age is not uncommon, since the work life of those employees tends to be shortened by the hazards and physical demands of their occupations.[42] The same rationale does not apply to other public sector employees.

All of the Plans allow workers reaching retirement eligibility to enter a deferred retirement program. See the sidebar on p. 22 for a discussion of these programs.

Cost of Living Adjustments. Cost of living adjustments (COLAs) also affect the generosity of defined benefit plans. COLAs are intended to offset the toll that inflation takes on the value of pension benefits during the course of retirement.

Nationwide, 70% of state and local pension plans provide COLAs on an annual basis: 47% based on changes to the Consumer Price Index and 23% automatically by a fixed percentage, regardless of inflation.[43] For approximately 20% of state and local plans, COLAs are granted solely at the discretion of the state legislature or local governing body. Only 10% tie COLAs to a financial performance metric, such as investment returns, funded ratio or the level of assets in a special COLA fund.[44]

Louisiana's state and statewide Plans are more restrictive than most public sector plans. Their COLAs are awarded at the discretion of each Plan's board of trustees, but only if the Plan meets certain financial performance criteria. The COLAs are capped at various levels, such as 3% of a member's current benefit. In the

Deferred Retirement Programs

All of the Plans offer some form of a deferred retirement option plan. Such plans are less common elsewhere in the U.S. According to data available through the Center for Retirement Research, less than 15% of state and local retirement plans offer such programs.[1]

Twelve of the 15 systems offer a plan known as DROP. DROP enables an employee who is eligible for retirement to continue working and receive pension payments. The payments are credited to an account during his continued employment, and paid to him in a lump sum upon retirement.[2] The employee does not contribute to the retirement plan while he is in DROP.

There are variations among the DROP programs. For example, the state and statewide Plans limit the DROP period to three years. The three local Plans allow a worker to participate in DROP for up to five years. If an employee continues working after his DROP period expires, he again becomes a contributing member of the Plan and accrues supplemental benefits.[3]

The goal of DROP is to encourage productive and knowledgeable employees to remain at work. However, a plan could achieve the same result, and reduce the cost of pensions, by tightening eligibility criteria and reducing multipliers.

Deferred retirement programs have the potential to impose additional costs on local government employers. According to a recent study, the DROP program for police, fire and municipal employees in the City of Philadelphia cost the city between $24,000 and $39,000 per participant. This was primarily due to the fact that employees who would have continued working regardless of DROP entered the program. This eliminated contributions that would have flowed to the system and accelerated the payout of benefits.[4]

Table 10 shows the number of participants in DROP for the Plans in 2011. The S&WB and New Orleans Firefighters (New) Plans have an exceptionally large number of DROP members compared to active members.

The Assessors, District Attorneys and Sheriffs Plans offer a different type of deferred retirement option, known as Back-DROP. Back-DROP differs from DROP in that employees do not formally opt into the program. In Back-DROP, an employee who is eligible for retirement, but wishes to continue working, remains a contributing member of the plan until he actually retires. At that point, the plan gives the retiring member a lump sum payment equal to up to three years of the retirement benefits that he would have collected had he retired when he became eligible. Since members do not opt into Back-DROP, it is not possible to tally the number of workers benefiting from the program at any one time.

NOTES

1 Center for Retirement Research, Public Plans Database, www.pubplans.bc.edu.

2 For most of the Plans, a member's DROP account does not accrue interest during the DROP period. The exceptions are the New Orleans Municipal and S&WB Plans.

3 The supplemental benefit for the post-DROP period is calculated by multiplying the employee's final average compensation by the benefit multiplier, and the post-DROP years of service. The final average compensation does not include salary increases during the DROP period.

4 Samson, Alva, Norma B. Coe and Anthony Webb, "The Impact of a DROP Program on the Age of Retirement and Employer Pension Costs," The Center for Retirement Research, September 2010.

TABLE 10: DROP PARTICIPATION BY PLAN, 2011

	# Participating in DROP	Active Members	Ratio of DROP to Active
S&WB	133	852	15.6%
New Orleans Firefighters (New)	87	614	14.2%
Registrars of Voters	21	227	9.3%
New Orleans Municipal	150	2,289	6.6%
Clerks of Court	132	2,194	6.0%
Louisiana Firefighters	225	4,020	5.6%
Municipal Employees Plan A	244	4,785	5.1%
Parochial Employees Plan A	671	13,975	4.8%
School Employees	619	12,854	4.8%
Lasers*	2,569	54,930	4.7%
Municipal Police	231	5,933	3.9%
Municipal Employees Plan B	79	2,096	3.8%
Teachers*	3,032	86,742	3.5%

*Lasers and Teachers present information on DROP on a consolidated basis for all plans.
Source: System audits and actuarial valuation reports.

case of the state Plans, COLAs must also receive the State Legislature's approval.

The parameters for granting COLAs are different in the case of the local Plans. The board of trustees of the New Orleans Municipal Plan can grant a COLA of up to 3%, but only when the return on the plan's COLA reserve account meets a certain threshold.[45] The S&WB ties its COLAs to the Consumer Price Index. However, it caps them at 2% and limits them to the first $10,000 of a retiree's benefit.[46] The effect is to cap COLAs at $200 per year.

The board of trustees of the New Orleans Firefighters system can grant COLAs of up to 3% to retirees 65 years and younger. For members over 65, the board can grant COLAs of up to 5%. The COLAs are not tied to inflation or investment performance. As a result, retirees can receive COLAs even in years when there is little inflation or investments underperform.

BGR compared the COLAs granted by the Plans between 1993 and 2012 with inflation over that period. (See Table 11.) Benefits paid by the New Orleans Firefighters (New) Plan outpaced inflation by 14.3%. Benefits paid by all the others lost ground over this period. The majority saw the value of their benefits relative to

TABLE 11: COST OF LIVING ADJUSTMENTS, 1993-2012

Plan	Benefit Growth or Decline Compared to Inflation	# COLAs Granted Since 1993	Date of Last COLA
New Orleans Firefighters (New)	14.3%	19	2011
Louisiana Firefighters	-5.3%	11	2009
Municipal Police	-9.6%	9	2002
Sheriffs	-11.0%	10	2008
Municipal Employees Plan A	-15.7%	10	2009
Municipal Employees Plan B	-15.7%	10	2009
District Attorneys	-21.4%	10	2008
School Employees	-22.0%	10	2002
Parochial Employees Plan A	-23.6%	14	2011
Lasers Regular	-26.9%	9	2008
Lasers Judges	-27.4%	9	2008
New Orleans Municipal	-27.6%	7	2008
Teachers Plan B	-27.8%	10	2008
Teachers Regular	-28.3%	10	2008
Clerks of Court	-30.3%	6	2008
Assessors	-30.9%	3	1999
S&WB	-31.9%	20	2012
Registrars of Voters	N/A	N/A	2000

* The Registrars of Voters Plan did not provide information on its COLA history. It indicated that it last granted a COLA in 2000.

Sources: BGR calculations based on COLA information provided by the Plans and inflation data available through the Bureau of Labor Statistics' Consumer Price Index Inflation Calculator.

inflation drop more than 20%. Three Plans – Assessors, Clerks of Court and S&WB – saw the value of their benefit drop more than 30%.

ASSESSING THE GENEROSITY OF THE PLANS

How Do the Plans Compare to Their National Counterparts?

In order to assess the overall generosity of a plan, one must consider both the contributions required of employees and the benefits they can expect in retirement. While a plan may offer a particularly large benefit, it may also require a correspondingly large employee contribution.

To help assess the relative generosity of the Plans, BGR calculated the annual benefit payable to the Hypothetical Employee as a percentage of his total contributions. It then compared the percentage for each Plan to the relevant national median. The results are set forth in Table 12. For an explanation of the calculations, see the sidebar.

In the early phases of retirement, all but one of the Plans provide annual benefits that, as percentage of total employee contributions, are more generous than the national median.

If the Hypothetical Employee were a member of the median U.S. Unsupplemented plan, he would contribute $108,000 to his pension plan and earn a benefit of $27,155 in the first year of retirement. His annual benefit would equal 25% of his total lifetime contributions.[47]

By contrast, if he participated in the New Orleans Firefighters (New) Plan, he would contribute a total of $48,000 to his pension and receive $37,171 in his first year of retirement. The annual benefit would equal approximately 77% of total contributions, more than three times the percentage for the median U.S. plan. Seven other Unsupplemented Plans would provide the Hypothetical Employee with annual benefits that exceed 30% of total contributions.

In the first year of retirement, the median U.S. Supplemented plan yields an annual benefit equal to 36% of the employee's total contributions. All four of the Supplemented Plans exceed this percentage. The S&WB Plan is the most generous, offering an annual benefit equal to 52% of a member's lifetime contributions.[48]

As noted earlier, the clerk of court in St. Tammany Parish and the assessor's offices in Jefferson and St. Tammany currently pay their employees' pension contributions. The Jefferson Parish general government does likewise for employees hired prior to 1986. If this practice continues, these employees will collect annual retirement benefits without contributing anything toward their retirement.

The generous returns in the initial year result mainly from multipliers that exceed the national medians. However, if past patterns continue, lower-than-average COLAs will cause the value of the benefits paid by most of the Plans to erode over time.

Calculating the Generosity of the Plans

To help assess the relative generosity of the Plans, BGR calculated the annual benefit payable to the Hypothetical Employee as a percentage of his total contributions. It then compared the percentage for each Plan to the relevant national median. As a reminder, the Hypothetical Employee is someone who is hired today at a salary of $40,000 and retires after 30 years of service.

In calculating the annual benefit, BGR used the benefit formulas in effect at this time. To arrive at the final average compensation, it assumed that the Hypothetical Employee would receive 3% raises each year. BGR converted the result of the benefit calculation to 2012 dollars, using a 3% assumed rate of inflation.

To calculate contributions, BGR used the current employee contribution rates (and, where applicable, scheduled future increases). It applied them to the projected salary for each future year of service. It then discounted the contributions to 2012 dollars using the same 3% assumed rate of inflation.

TABLE 12: EMPLOYEE CONTRIBUTIONS AND THEIR BENEFIT YIELD

Expected annual benefit in the first year of retirement and total lifetime contributions for the Hypothetical Employee

PLAN	Annual Benefit in First Year of Retirement	Total Employee Contributions	First Year Benefit as Percentage of Total Employee Contributions
Unsupplemented Plans			
Assessors (Jefferson and St. Tammany)	$36,634	0	∞
Clerks of Court (St. Tammany)	$32,974	0	∞
New Orleans Firefighters (New)	$37,171	$48,000	77.4%
Registrars of Voters	$36,634	$84,000	43.6%
District Attorneys	$36,638	$95,600	38.3%
Assessors (Orleans)	$36,634	$96,000	38.2%
Clerks of Court (Jefferson & Orleans)	$32,974	$99,000	33.3%
Louisiana Firefighters	$37,711	$120,000	31.4%
Municipal Police	$37,711	$120,000	31.4%
Sheriffs	$36,634	$120,000	30.5%
Municipal Employees Plan A	$32,974	$111,000	29.7%
Parochial Employees Plan A	$32,974	$114,000	28.9%
Teachers Regular	$27,478	$96,000	28.6%
Lasers Regular	$27,478	$96,000	28.6%
School Employees	$27,478	$96,000	28.6%
NATIONAL MEDIAN	**$27,155**	**$108,000**	**25.1%**
Lasers Judges	$36,368	$156,000	23.5%
Supplemented Plans			
S&WB	$31,115	$59,600	52.2%
New Orleans Municipal	$30,226	$71,600	42.2%
Municipal Employees Plan B	$21,983	$60,000	36.6%
Teachers Plan B	$21,983	$60,000	36.6%
NATIONAL MEDIAN	**$21,497**	**$60,000**	**35.8%**

Source: BGR calculations using benefit formulas and employee contribution rates set forth in the Louisiana Revised Statutes, the New Orleans Code of Ordinances and the Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board. For details on the calculation of annual benefits and contributions, see the sidebar.

Note: The calculations are based on the Hypothetical Employee, who starts at a salary of $40,000 and works for 30 years. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

TABLE 13: THE IMPACT OF COLAS

Assuming retirement at age 60, at what age will annual and total benefits for the Hypothetical Employee intersect the national medians?

PLAN	Annual Benefit in Year One of Retirement	Age at which Annual Benefit Aligns	Age at which Cumulative Benefit Aligns
Unsupplemented Plans			
New Orleans Firefighters (New)	$37,171	Never	Never
Louisiana Firefighters	$37,711	> 100	> 100
Municipal Police	$37,711	> 100	> 100
Sheriffs	$36,634	> 100	> 100
District Attorneys	$36,638	85	> 100
Municipal Employees Plan A	$32,974	84	> 100
Lasers Judges	$36,638	79	> 100
Assessors	$36,634	77	95
Parochial Employees Plan A	$32,974	75	91
Clerks of Court	$32,974	71	83
School Employees	$27,478	61	62
Lasers Regular	$27,478	61	62
Teachers Regular	$27,478	61	62
NATIONAL MEDIAN	**$27,155**	**-**	**-**
Supplemented Plans			
New Orleans Municipal	$30,226	79	99
S&WB	$31,115	77	96
Municipal Employees Plan B	$21,983	63	66
Teachers Plan B	$21,983	61	63
NATIONAL MEDIAN	**$21,497**	**-**	**-**

Source: BGR calculations using benefit formulas set forth in the Louisiana Revised Statutes, the New Orleans Code of Ordinances and the Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board. For details on the calculation of benefits, see the sidebar on p. 24. BGR projected the future erosion of each Plan's benefit by applying a factor equal to the difference between each Plan's average annual COLA between 1993 and 2012 and the average annual increase in the Consumer Price Index during that period. It assumed that the benefits provided by the median U.S. plans would increase each year by the increase in the Consumer Price Index.

Notes: The calculations are based on the Hypothetical Employee, who starts at a salary of $40,000 and works for 30 years. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

The Registrars of Voters Plan is not included in the table because information on its COLA history is not available.

Table 13 estimates for each Plan the age at which the value of the Hypothetical Employee's annual benefit would fall to the level of the relevant national median. It also presents the age at which the cumulative benefits paid by a Plan to the Hypothetical Employee would equal the cumulative benefits paid by the median national plan. The table assumes retirement at age 60.

The value of the annual benefits provided by the Plans to the Hypothetical Employee would fall to the relevant national median at strikingly different ages. Members of four Plans, School Employees, Lasers Regular and Teachers Regular and Teachers Plan B, would see the value of their annual benefit fall to that level almost immediately after retirement. By contrast, members of five of the Plans would not see that happen until after age 80. Some of them would be more than 100 years old. The value of annual benefits for members of the New Orleans Firefighters (New) Plan would never fall to the national median, since their COLAs historically have outpaced inflation.

Because the Plans provide larger-than-average benefits, it would take longer for the cumulative benefits paid to the Hypothetical Employee by the Plans to fall below the cumulative benefits paid by the median U.S. plan. Members of most Plans would not see this happen until after age 90. For members of six Plans, this would not happen until after age 100. The cumulative benefits payable to members of the New Orleans Firefighters (New) Plan would never fall to the national median. For members of four Plans, however, the benefits would fall below those of the relevant median U.S. plan very early in retirement.

Adequacy of Benefits

While comparing benefits and contributions to national medians helps gauge the relative generosity of the Plans, it does not answer a core question: Do the Plans provide sufficient income to enable an employee to maintain a comparable quality of life in retirement?

Due to fewer expenses in retirement, the amount of income that a retiree needs to maintain his quality of life is usually lower than his pre-retirement income. Estimates of the amount range widely, from 70% to 94% of pre-retirement income, and vary according to income level.[49]

One oft-cited report pegs the level at 85% for individuals with incomes of $40,000.[50] For an employee at that income level who retires in 2012 with 30 years of service (2012 Retiree), nearly all of the Plans pay benefits that exceed this benchmark at retirement. (See Tables 14 and

TABLE 14: INCOME REPLACEMENT FOR UNSUPPLEMENTED PLANS

Benefit amount and replacement rate for the 2012 Retiree

Plan	Annual Pension Benefit	Replacement Rate
Lasers Judges	$38,846	97%
Assessors	$38,846	97%
Louisiana Firefighters	$38,846	97%
Municipal Police	$38,846	97%
Registrars of Voters	$38,846	97%
School Employees	$38,846	97%
Sheriffs	$38,846	97%
New Orleans Firefighters (New)	$38,286	96%
Clerks of Court	$35,473	89%
District Attorneys	$34,961	87%
Municipal Employees Plan A	$34,961	87%
Parochial Employees Plan A	$34,961	87%
TARGET REPLACEMENT RATE	**$34,000**	**85%**
Lasers Regular	$29,135	73%
Teachers Regular	$29,135	73%

Source: BGR calculations using the benefit multipliers that were in effect during the past 30 years. In the case of the District Attorneys, Clerks of Court and School Employees Plans, these differ from the multipliers currently in effect for new members. In calculating final average compensation, BGR assumed that the 2012 Retiree received 3% raises each year.

Note: The calculations are for the 2012 Retiree, who retires this year at a salary of $40,000 after 30 years of service. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

TABLE 15: INCOME REPLACEMENT FOR SUPPLEMENTED PLANS

Benefit amount and replacement rate for the 2012 Retiree

Plan	Pension Benefit	Social Security Benefit	Total Benefits	Replacement Rate
New Orleans Municipal	$32,048	$15,300	$47,348	118%
S&WB	$32,048	$15,300	$47,348	118%
Municipal Employees Plan B	$23,308	$15,300	$38,608	97%
Teachers Plan B	$23,308	$15,300	$38,608	97%
TARGET REPLACEMENT RATE	**$18,700**	**$15,300**	**$34,000**	**85%**

Source: BGR calculations using the benefit multipliers that were in effect during the past 30 years. In calculating final average compensation, BGR assumed the 2012 Retiree received 3% raises each year. To estimate Social Security benefits, BGR used the Social Security Administration's Social Security Quick Calculator at www.ssa.gov/oact/quickcalc/index.html. BGR assumed that the individual retired at age 66, the point at which he is eligible for full Social Security benefits.

Note: The calculations are for the 2012 Retiree, who retires this year at a salary of $40,000 after 30 years of service. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

15.) Indeed, in many cases the 2012 Retiree will receive an annual benefit approaching 100% of his final salary.

Of the 14 Unsupplemented Plans, 12 pay benefits above the benchmark replacement rate. Only two – Lasers Regular and Teachers Regular – pay a benefit below that rate.

As noted previously, there are four Supplemented Plans. In those cases, the employer and the employee are contributing to both a pension system and the Social Security system. Calculations of replacement income for members of those Plans must take both sources into account.

In all four of those Plans, the initial pension and Social Security benefits for the 2012 Retiree will exceed the replacement rate. In the case of the New Orleans Municipal and S&WB Plans, the pension benefit alone hits the target replacement rate. With Social Security, the employee's retirement income totals 118% of his final salary. In other words, the employee makes more in retirement than he did while working.

The Plans' replacement rates will fall over time if COLAs do not keep pace with inflation. Table 16 uses the COLA histories of the 14 Unsupplemented Plans to estimate the age at which the 2012 Retiree would see the value of his benefit dip below the target replacement rate. The table assumes that the employee retired at age 60.

The range is quite wide. Benefits paid by the New Orleans Firefighters (New) Plan would never fall below the target replacement rate. Those provided to the 2012 Retiree by Lasers Regular and Teachers Regular Plans would never exceed it. For three other Plans, the annual benefit would not fall below the target replacement rate until age 84 or later. In the case of seven of the Unsupplemented Plans, the 2012 Retiree's annual benefit would fall below the target replacement rate at some point before age 72.

In the case of the four Supplemented Plans, the 2012 Retiree would not see his combined Social Security and pension benefits fall below the target rate until very late in retirement. In the case of the New Orleans Municipal Plan, this would not happen until he turns 100. As a member of Teachers Plan B, his combined benefits would fall below the target rate at age 80. (See Table 17.)

To summarize, in the first year of retirement all but two of the Plans would provide the 2012 Retiree with more income than is needed to maintain his pre-retirement quality of life. Ten of the Plans would yield nearly 100% income replacement. The New Orleans Municipal and S&WB Plans are even more generous. Under those Plans, the 2012 Retiree's combined Social Security and pension income would exceed what he earned while working.

However, unless the Plans provide more generous COLAs than in the past, the value of the benefits provided to the 2012 Retiree would in almost all cases erode over time due to inflation. The extent of that erosion

TABLE 16: THE IMPACT OF COLAS (UNSUPPLEMENTED PLANS)

Assuming retirement at age 60, at what age will the 2012 Retiree's benefits be below the target replacement rate?

Plan	Age at which annual benefit falls below 85% target
New Orleans Firefighters (New)	Never
Louisiana Firefighters	> 100
Municipal Police	88
Sheriffs	84
School Employees	71
Lasers Judges	69
Assessors	68
Municipal Employees Plan A	64
Clerks of Court	63
District Attorneys	63
Parochial Employees Plan A	63
Lasers Regular	Below target at 60
Teachers Regular	Below target at 60

Source: BGR calculations. BGR projected the future erosion of each Plan's benefit by applying a factor equal to the difference between each Plan's average annual COLA between 1993 and 2012 and the average annual increase in the Consumer Price Index during that period.

Notes: The calculations are for the 2012 Retiree, who retires this year at a salary of $40,000 after 30 years of service. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

The Registrars of Voters Plan is not included in the table, because information on its COLA history is not available.

TABLE 17: THE IMPACT OF COLAS (SUPPLEMENTED PLANS)

Assuming retirement at age 66, at what age will the 2012 Retiree's benefits be below the target replacement rate?

Plan	Age at which combined annual benefit falls below 85% target
New Orleans Municipal	100
S&WB	94
Municipal Employees Plan B	93
Teachers Plan B	80

Source: BGR calculations. BGR projected the future erosion of each Plan's benefit by applying a factor equal to the difference between each Plan's average annual COLA between 1993 and 2012 and the average annual increase in the Consumer Price Index during that period. It assumed that Social Security benefits will keep pace with inflation.

Note: The calculations are for the 2012 Retiree, who retires this year at a salary of $40,000 after 30 years of service. The actual benefits paid to retirees in each Plan will vary based on their salary and years of service. To view the average retirement benefit paid by each Plan in 2011, see Appendix 1.

would differ greatly by Plan. The benefits payable by some of the Plans would be below the target replacement rate relatively early in retirement. In other cases, the 2012 Retiree is unlikely to see the benefit fall below the target rate.

How Do the Plans' Benefits Compare to the Private Sector?

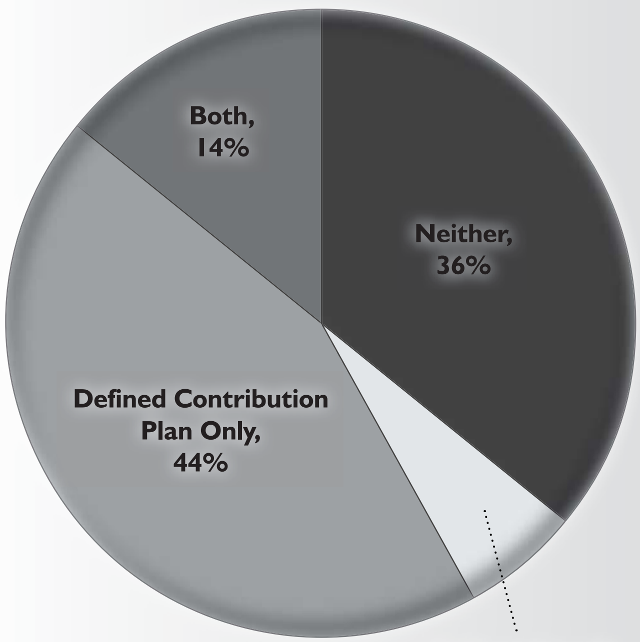
The retirement vehicles available to private sector workers are quite different from the defined benefit plans available to most local government employees in Jefferson, Orleans and St. Tammany. In the private sector, defined contribution plans prevail.

A defined contribution plan provides retirement benefits through an IRA funded by the employer or, more commonly, by the employer and the employee. With a defined contribution plan, the employee is not entitled to a specific benefit throughout retirement. He receives only the value of his account – contributions made over the course of his participation, plus or minus investment gains or losses. The employer's obligation is limited to the contributions it made. Examples of defined contribution plans include 401(k) and 403(b) plans.

Only 20% of private sector workers in the U.S. have access to a defined benefit plan. Approximately 58% have access to a defined contribution plan supported to some degree by their employer. Fourteen percent have access to both. However, 36% of private sector workers have no access to any employer-supported retirement plan.[51] These workers must rely solely on Social Security and their own savings to meet their needs in retirement.

Defined contribution plans have not always dominated in the private sector. Until the mid-1980s, defined benefit plans were the norm in both the public and private sec-

AVAILABILITY OF DEFINED BENEFIT AND CONTRIBUTION PLANS IN THE PRIVATE SECTOR IN 2011



Source: U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States – March 2011*, Bulletin 2771.

tors. In 1986, 93% of full-time state and local government workers and 76% of full-time private industry workers participated in defined benefit plans.[52] Over the past 25 years, participation by full-time workers in defined benefit plans has declined drastically, to 22%, in the private sector and only modestly, to 87%, in the public sector.[53]

A number of factors drove the decline of defined benefit plans in the private sector. These include the passage of the Employee Retirement Income Security Act in 1974, which imposed new regulations on private sector defined benefit plans,[54] and changes to the tax code making contributions to defined contribution plans tax deductible.[55] Decreasing rates of unionization and the shift from manufacturing to service industry jobs also contributed to the decline of defined benefit plans in the private sector.[56]

Compared to defined benefit plans, defined contribution plans have two distinct disadvantages for employees. First, in a defined contribution plan, the employee bears the risk of investment losses. His account balance will rise and fall with its investment performance, with no guarantee against severe losses. By contrast, in a defined benefit plan, employees are entitled to a specified benefit each year, and government employers must cover any shortfalls between the cost of promised benefits and available funding in the pension plan.

Second, unless they use their account balance to purchase an annuity, private sector workers who rely on an IRA for retirement run the risk of outliving the funds in their account. This is not a concern for local government workers in a defined benefit plan, as their annual benefits are promised for life.

To ascertain the relative generosity of the Plans and private sector saving vehicles, BGR analyzed the situation of the Hypothetical Employee. First it calculated the annual benefits that he would receive from each Plan and, where applicable, Social Security. It then compared those annual benefits to the amounts that the Hypothetical Employee could expect to receive from an IRA and Social Security, provided he saved for retirement at the same rate as his public sector counterpart. For example, if the employee contribution rate for a Plan were 10%, the private sector worker's contributions would consist of 6.2% to Social Security and 3.8% to an IRA.

In all cases, the annual benefits payable to the Hypothetical Employee would exceed those payable to his private sector counterpart. The differences range from $4,200 to almost $20,000 per year. The three local Plans in New Orleans, which serve employees of the Sewerage & Water Board, New Orleans firefighters and general city employees, have the largest differentials. The Plans with the smallest differentials are the primary Plans of the three major state systems, for teachers, school employees and general state employees. (See Table 18.)

By way of example, if the Hypothetical Employee were a public school teacher, he could anticipate an annual retirement benefit of approximately $27,500. In the private sector, he could expect approximately $23,300 a year in retirement, if his investments performed well enough. If the Hypothetical Employee were a participant in the S&WB Plan, he could look forward to an annual benefit of approximately $47,400. His private sector counterpart with a similar saving pattern could expect approximately $27,800 a year from Social Security and his IRA, if his investments performed well enough.

Most private sector employees will be in a more precarious position than the above examples suggest. As noted earlier, more than a third of the private workforce does not have access to employer-supported retirement plans, making these employees heavily, if not exclusively, reliant on Social Security. The projected Social Security benefit for the Hypothetical Employee is $16,300 a year.

TABLE 18: COMPARING THE HYPOTHETICAL EMPLOYEE'S EXPECTED BENEFITS IN THE PUBLIC AND PRIVATE SECTORS

Plan	Annual Benefit Provided by the Plan and Social Security	Expected Benefit for Private Sector Worker Making Equivalent Contribution to Social Security and an IRA	Difference in Annual Benefit
S&WB	$47,425	$27,818	$19,607
New Orleans Municipal	46,536	29,270	17,266
New Orleans Firefighters (New)	37,171	20,654	16,517
Registrars of Voters	36,634	21,746	14,888
District Attorneys	36,638	23,186	13,452
Assessors	36,634	23,258	13,376
Municipal Police	37,711	26,162	11,549
Louisiana Firefighters	37,711	26,162	11,549
Sheriffs	36,634	26,162	10,472
Municipal Employees Plan B	38,293	28,274	10,019
Teachers Plan B	38,293	28,274	10,019
Clerks of Court	32,974	23,630	9,344
Municipal Employees Plan A	32,974	25,070	7,904
Parochial Employees Plan A	32,974	25,430	7,544
Lasers Judges	36,638	30,506	6,132
Teachers Regular	27,478	23,258	4,220
Lasers Regular	27,478	23,258	4,220
School Employees	27,478	23,258	4,220

Source: BGR calculations for the Hypothetical Employee, who is hired in 2012 at a salary of $40,000 and works for 30 years. The calculations are based on the Plans' benefit formulas, the Social Security benefit formula as explained at www.ssa.gov/pubs/10070.html#a0=0, and a series of assumptions regarding contributions to and earnings from a private sector worker's IRA (see note).

Note: To calculate the expected annual benefit from an IRA, BGR assumed that the worker's employer contributed an amount equal to 3% of his salary each year to the IRA. It assumed that the worker himself contributed to his IRA an amount equal to the difference between his public sector peer's required pension contribution rate and a Social Security contribution of 6.2%, the rate that was in place for 20 years before the temporary reduction in 2011 and 2012. BGR assumed the IRA will earn an annual rate of return of 7%. BGR discounted all expected future benefits to 2012 dollars using an assumed annual rate of inflation of 3%. For the IRA, it then converted the account balance to an annuity using an annuity calculator.

In addition, research indicates that the overwhelming majority of private sector employees are not making substantial contributions to their retirements. The Schwartz Center for Economic Policy Analysis analyzed the IRA balances for baby boomers approaching retirement. It found that those with incomes in the bottom three quartiles have an average balance of just $26,400. Even more troubling, the majority of those in this group have saved nothing. Those in the top-earning quartile have an average retirement account balance of $105,000 and a median of just $52,000.[57] Put simply, the baby boomers in the private sector are ill-prepared for retirement.

Not only are public pension benefits more generous than those available in the private sector, they carry certain tax advantages. Income received through the Plans is not subject to state income taxes.[58] Neither are Social Security benefits.[59] However, other retirement income, such as withdrawals from an IRA, is generally subject to state income tax.[60] This works to the disadvantage of the private sector worker reliant on a defined contribution plan for his retirement.

Some argue that generous public sector retirement benefits are necessary to offset the difference in wages paid to similarly qualified workers in the private sector. As a result, they argue, it is not fair to compare the retirement benefits of public and private sector workers with identical salaries.

BGR was unable to find any recent analyses of wage differentials in the local area. At the national level, there is general agreement that a wage gap exists for similarly qualified employees in the public and private sectors. One recent study found that the average private sector worker earns wages 9.5% higher than his peer in state or local government. Another found a more modest gap of 4%. However, both studies also found that the wage disparities are not evenly distributed throughout income levels. While there is a large wage gap for the highest-paid employees, the gap is almost negligible for average earners. In addition, the studies discovered that workers at the bottom of the income distribution actually earn somewhat higher wages working in state and local government than they would in the private sector.[61]

Wages and pension benefits, however, are part of the larger concept of total compensation, which covers wages and the full spectrum of employer-provided benefits. Examples of these benefits include health, life and disability insurance, vacation, sick leave and bonuses. A comparison of the total compensation of public and private sector employees in the metropolitan area is beyond the scope of this report.

ANALYSIS AND CONCLUSION

During the past decade, local governments in the New Orleans area have seen a large and growing share of their operating budgets consumed by pension obligations. The cost increases have real consequences for taxpayers, since they erode the resources needed to deliver services and improve local infrastructure.

Today's pension costs are a function of various factors, including recent market declines, large pre-existing unfunded liabilities and, for at least one Plan, poor funding decisions. A series of unwise decisions regarding the pension system for firefighters in New Orleans has saddled the city with staggering costs for that system – $51.4 million in 2011 alone. This represents the majority of the city's pension costs for all employees.

The generous benefits provided to retirees have also contributed to costs. There is a vast gulf between the benefits provided by the Plans and the benefits available to most private sector workers. The benefits available to the Hypothetical Employee participating in the Plans exceed what he can expect from Social Security and an employer-supported IRA. In addition, more than one-third of private sector employees do not have access to any type of employer-supported retirement plan.

Not only are the defined benefit plans available to local government workers in metropolitan New Orleans more generous than the retirement vehicles available in the private sector, they also shield their members from risks inherent in an IRA plan. Unlike most private sector employees, local government workers need not worry that investment losses will wipe out their retirement savings or that they will outlive their savings.

Put simply, private citizens are helping to pay for public sector retirement benefits that are far more generous and more secure than their own.

The Plans also provide total benefits that initially exceed the medians for state and local government workers elsewhere in the U.S. In many cases, they exceed them by big margins.

The higher benefits are driven by higher-than-average multipliers. These multipliers also allow employees to reach their maximum benefit level more quickly than their peers around the country. This serves as a disincentive for continued work and allows employees to retire with full benefits at an earlier age than local government workers elsewhere in the U.S. That, in turn, means they spend more years collecting retirement benefits, driving up costs to the public.

In addition, all but one of the Plans provide annual retirement benefits that, when calculated as a percentage of lifetime contributions, are initially more generous than national medians.

However, because the Plans generally operate under stricter COLA policies than most plans in the U.S., the relative generosity of the benefits they provide erodes over time. But if history is a guide, the retirees in most of the Plans will be beyond age 90 or 100 before their cumulative benefits fall below what public employees nationally can expect.

In the early years of retirement, all but two of the Plans provide benefits in excess of what retirees need to maintain their quality of life in retirement. Again, the situation changes over time due to more restrictive COLA policies.

Unfortunately for local governments, there is no way to make the obligations that they have incurred in the past magically disappear. The Plans must pay down their Unfunded Liabilities and make promised benefit payments to current retirees.

However, lawmakers at the state and local levels can craft careful reforms that provide benefits that are fair both to public sector retirees and to the private citizens that help to support them.

Doing so will require lawmakers to perform a balancing act. On the one hand, it is clearly unfair to ask workers in the private sector to help pay for public retirement benefits that are far more generous and secure than their own. On the other hand, the private sector at large is failing to provide for a secure retirement, and lawmakers should be wary of embracing private sector models too enthusiastically.

American workers in the private sector are not saving at levels needed to realize an adequate level of income in retirement. As noted earlier, an alarming number of those approaching retirement age have saved next to nothing and will depend heavily, if not exclusively, on Social Security. In addition, many employers in the private sector do little to help their employees prepare for retirement.

Lawmakers should avoid joining a race to the retirement bottom. But they should also explore options to address excesses and create systems that best balance the dual goals of providing local government workers with a secure retirement and making smart use of public funds.

In the next installment of its pension series, BGR will analyze a range of possible reforms – from adjustments to the factors that determine the generosity of the Plans to wholesale changes in the structure of benefits.

APPENDIX 1: CHARACTERISTICS OF THE PLANS, 2011

Full Plan Name	Members	# of Active Members	# of Retirees*	Average Salary	Average Benefit
State Plans					
Louisiana School Employees' Retirement System	School employees, except teachers, administrators and school lunch workers	12,854	13,336	$23,667	$10,643
Louisiana State Employees' Retirement System - Regular Plan	Rank and file state employees	54,607	43,711	$42,338	$22,181
Louisiana State Employees' Retirement System - Judges' Plan	Judges and court officers	323	**	$130,869	**
Teachers' Retirement System of Louisiana - Regular Plan	Teachers and school administrators	85,322	68,544	$43,311	$23,863
Teachers' Retirement System of Louisiana - Plan B	School lunch workers covered by Social Security	1,264	**	$19,158	**
Statewide Plans					
Assessors' Retirement Fund	Assessors and employees	744	493	$49,700	$29,458
Clerks of Court Retirement and Relief Fund	Clerks of court and employees	2,194	1,107	$37,577	$21,128
District Attorneys' Retirement System	District attorneys and assistant district attorneys	761	201	$72,746	$48,358
Firefighters' Retirement System	Firefighters, except New Orleans firefighters	4,020	2,027	$48,044	$37,828
Municipal Employees' Retirement System of Louisiana - Plan A	Municipal employees not covered by another plan and not covered by Social Security	4,785	3,245	$32,663	$16,936
Municipal Employees' Retirement System of Louisiana - Plan B	Municipal employees not covered by another plan and covered by Social Security	2,096	944	$30,082	$10,358
Municipal Police Employees' Retirement System	Municipal police employees, including New Orleans Police Department	5,933	4,396	$46,073	$28,880
Parochial Employees' Retirement System of Louisiana - Plan A	Parish employees not covered by another plan and not covered by Social Security	13,975	6,389	$37,727	$20,450
Registrars of Voters Employees' Retirement System	Registrars of voters and employees	227	168	$52,530	$23,957
Sheriffs' Pension and Relief Fund	Sheriffs and employees	14,754	3,716	$42,232	$25,110
Local Plans					
Employees' Retirement System of the City of New Orleans	Non-hazardous duty City employees	2,289	2,048	$40,915	$18,998
Employees' Retirement System of the Sewerage & Water Board of the City of New Orleans	Sewerage & Water Board employees	852	955	$34,947	$20,562
Firefighters' Pension and Relief Fund of the City of New Orleans - New Fund	Firefighters employed by the City of New Orleans	614	710	$50,137	$41,608

* Includes individuals participating in deferred retirement programs.
**Lasers and Teachers report their counts of retirees, average benefit per retiree and actuarial value of assets for all of their Plans on a combined basis. The combined totals are given in the rows for Lasers Regular and Teachers Regular.

Source: System audits and actuarial reports.

APPENDIX 2: EMPLOYER CONTRIBUTIONS AS A PERCENTAGE OF OPERATING EXPENDITURES, BY LOCAL GOVERNMENT ENTITY

Jefferson Parish

Thirteen public employers in Jefferson Parish contributed to the Plans during fiscal 2010. The contributions totaled $79 million and represented approximately 6.7% of combined operating costs. The largest contributors in terms of dollars were the Jefferson Parish School Board and the general parish government.

The largest contributor on a percentage basis was the Jefferson Parish Assessor's Office. Its pension contributions as a percentage of operating expenditures stood at 12.6%. The assessor's costs include employee contributions that the assessor elected to pay on his employees' behalf.

TABLE A: EMPLOYER CONTRIBUTIONS AS A PERCENTAGE OF OPERATING EXPENDITURES IN JEFFERSON PARISH, 2010 AND 2001

	Fiscal Year 2010		Fiscal Year 2001	
Employer	**Contributions ($ millions)**	**% of Operating Expenditures**	**Contributions ($ millions)**	**% of Operating Expenditures**
Assessor (1)	$0.3	12.6%	$0.1	4.6%
Clerk of Court (2)	$1.3	8.8%	$0.6	5.9%
Other Entities Reviewed (3)	$0.8	7.5%	$0.3	4.6%
Sheriff (4)	$9.2	7.4%	$5.5	6.6%
Parish Government (5)	$25.7	7.0%	$14.6	6.0%
School Board	$35.9	6.5%	$24.8	7.5%
Municipal Governments (6)	$5.8	5.1%	$2.1	2.5%
Jefferson Parish Totals (7)	**$79.0**	**6.7%**	**$48.1**	**6.3%**

(1) Includes employee contributions paid by the assessor in 2010. The assessor did not pay employee contributions in 2001.
(2) Both 2001 and 2010 figures reflect employer contributions only. Although the Jefferson Parish Clerk of Court can pay employee contributions, he did not elect to do so.
(3) Includes the Coroner, East Jefferson Levee District and the 24th Judicial District Intensive Probation Drug Court Fund.
(4) Includes the portion of employee contributions paid by the Sheriff's office in 2001 and 2010.
(5) Includes employer contributions paid on behalf of the Jefferson Parish district attorney's office, and certain employee contributions paid by the parish.
(6) Includes the cities of Kenner, Gretna, Westwego and Harahan and the Town of Jean Lafitte. Grand Isle does not participate in any of the Plans.
(7) Totals may not add due to rounding.

Source: BGR calculations based on data in annual financial reports for 2001 and 2010; Jefferson Parish, *2010 Annual Budget*; and data from the Jefferson Parish Department of Finance.

Orleans Parish

Forty public employers in Orleans Parish, including 20 operators of charter schools, contributed to the Plans in 2010. The contributions totaled $118.1 million and represented 8.5% of combined operating costs. The largest contributor by far was the City of New Orleans, followed by the various school employers in Orleans Parish collectively. Those include the Orleans Parish School Board, the Recovery School District and operators of charter schools that participate in the Plans. With the exception of the Sewerage & Water Board, all of the employers spent more than 5% of their operating budgets in fiscal 2010 on pension obligations.

TABLE B: EMPLOYER CONTRIBUTIONS AS A PERCENTAGE OF OPERATING EXPENDITURES IN ORLEANS PARISH, 2010 AND 2001

	Fiscal Year 2010		Fiscal Year 2001	
Employer	**Contributions ($ millions)**	**% of Operating Expenditures**	**Contributions ($ millions)**	**% of Operating Expenditures**
City Government	$77.8	11.3%	$45.8	9.3%
Civil District Court (including Clerk of Court) (1)	$1.5	9.7%	$1.0	6.8%
Assessors (2)	$0.6	8.2%	$0.1	3.5%
Other Entities Reviewed (3)	$1.8	7.4%	$1.1	4.4%
School Board (including charters and RSD) (4)	$26.4	6.1%	$35.5	7.3%
Sheriff (5)	$3.9	5.9%	$1.7	2.2%
District Attorney	$0.8	5.7%	$0.1	1.1%
Sewerage & Water Board	$5.1	3.7%	$4.5	4.3%
Orleans Parish Totals (6)	**$118.1**	**8.5%**	**$89.9**	**7.4%**

(1) The Clerk of Civil District Court in Orleans Parish was included in the court's financial statements in 2001, but separately reported in 2010. For consistency, BGR combined the 2010 results for the clerk and the court.
(2) Includes the Orleans Parish Board of Assessors and the seven district assessors' offices. None of the assessors paid employee contributions in 2001. All but one, the 5th Municipal District Assessor, paid them in 2010. The Board of Assessors also paid the employee contributions for the elected assessors in 2010.
(3) The other entities are the Board of Liquidation, City Debt; Constable of First City Court; Criminal District Court; Orleans Parish Communications District; and the Orleans Levee District.
(4) 2010 figures include those charter schools and schools directly operated by the Recovery School District that participate in a defined benefit plan.
(5) 2001 figures combine the pension costs of the Criminal Sheriff and the Civil Sheriff. 2010 figures reflect the costs of the consolidated Sheriff's office.
(6) Totals may not add due to rounding.

Sources: BGR calculations based on data in annual financial reports for 2001 and 2010.

St. Tammany Parish

Twenty-seven public employers in St. Tammany Parish contributed to the Plans in 2010. The contributions totaled $51.3 million and represented more than 7% of combined operating expenses. Table C summarizes the contributions as a percentage of operating expenditures for the parish employers reviewed. By far, the largest contributor was the St. Tammany Parish School Board, which contributed $33.8 million to the Teachers and School Employees Plans. This amounted to 8% of its operating expenditures.

TABLE C: EMPLOYER CONTRIBUTIONS AS A PERCENTAGE OF OPERATING EXPENDITURES IN ST. TAMMANY PARISH, 2010 AND 2001

	Fiscal Year 2010		Fiscal Year 2001	
Employer	**Contributions ($ millions)**	**% of Operating Expenditures**	**Contributions ($ millions)**	**% of Operating Expenditures**
Clerk of Court (1)	$1.1	13.8%	$0.3	6.1%
Assessor (2)	$0.5	12.6%	$0.1	8.3%
Fire Protection Districts (3)	$4.0	11.0%	$0.8	5.7%
School Board	$33.8	8.0%	$16.2	7.4%
Municipal Governments (4)	$4.4	6.0%	$2.0	4.1%
Sheriff	$3.2	5.8%	$0.8	3.0%
Other Entities Reviewed (5)	$1.1	5.3%	$0.2	2.7%
District Attorney	$0.2	5.2%	0	1.7%
Parish Government	$2.9	3.5%	$0.7	2.0%
St. Tammany Parish Totals (6)	**$51.3**	**7.2%**	**$21.3**	**5.9%**

(1) 2010 includes the employee contribution that the clerk of court elected to pay in that year. The clerk of court did not pay the employee contribution in 2001.
(2) Includes employee contributions paid by the assessor in both 2001 and 2010.
(3) Includes District Nos. 1-5, 8, 9 and 12.
(4) Includes the cities of Slidell, Covington and Mandeville; the towns of Abita Springs, Madisonville and Pearl River; and the Village of Folsom. The Village of Sun did not participate in a defined benefit plan.
(5) Includes the Coroner, Public Library, Recreation Districts Nos. 1 and 11, Mosquito Abatement District No. 2 and Communication District No. 1.
(6) Totals may not add due to rounding.

Sources: BGR calculations based on data in annual financial reports for 2001 and 2010.

APPENDIX 3: REVENUE SHARING FUNDS AND OTHER TAXES AND FEES

Although employer contributions and dedicated property taxes make up by far the largest share of the public's pension costs, the public also pays for pensions through allocations from the state's Revenue Sharing Fund and from other taxes and fees.

Revenue Sharing Fund. The state's Revenue Sharing Fund was created to offset part of the tax revenue losses suffered by local governments because of the homestead exemption. Each year, the Legislature appropriates money to the fund for distribution to each parish based on its population and its number of homestead-exempt properties. In the appropriation act, it dedicates a portion of each parish's annual distribution to various retirement plans. Eight of the Plans receive support from the Revenue Sharing Fund, but the level of support is small. In 2011, the Assessors and Sheriffs Plans received the most funding from this source, approximately $400,000 each.[62]

Dedicated Portions of Other Taxes and Fees. The state distributes a portion of a tax on property and casualty insurance premiums to the Sheriffs, Municipal Police and Louisiana Firefighters Plans.[63] In 2011, this tax provided $21.6 million to the Louisiana Firefighters Plan and $15.4 million each to the Sheriffs and Municipal Police Plans. In each case, the revenue accounted for a significant percentage of total plan contributions. The tax revenue accounted for more than 27% of total contributions to the Louisiana Firefighters Plan last year.

The New Orleans Firefighters system receives funding from a different insurance tax. This tax is imposed statewide on insurance premiums paid to out-of-state insurers that cover losses caused by fire.[64] The tax is collected by the state, and a portion is distributed to local governments to support local fire services.[65] New Orleans' share is dedicated to the Old and New Funds of the New Orleans Firefighters system.[66] In 2011, the two funds split $1.2 million in revenue.[67] The New Orleans Firefighters system as a whole received far less per member ($606) than the Louisiana Firefighters Plan ($3,536) from insurance-related dedications.

The Police Pension Fund of the City of New Orleans, a closed plan that operates solely to pay death benefits of its retirees, receives 50% of driver's and chauffeur's license revenue collected in the city. In 2011, this amounted to approximately $145,000.[68]

APPENDIX 4: THE FINANCIAL HEALTH OF THE PLANS

The simplest measure of a plan's health is its funded ratio. The funded ratio compares the actuarial value of a plan's assets to its actuarial accrued liability. The actuarial accrued liability is a measure of the future benefits attributable to past service by current and former employees and retirees.

Unfortunately, the methods of actuarial valuation used by the Plans measure accrued liabilities in different ways, complicating comparisons of the funded ratios of the Plans. The Louisiana Legislative Auditor's office, in its annual report on state and statewide pension plans, addresses this problem by using a slightly different formula to determine a plan's funded ratio.[69] The Legislative Auditor compares the actuarial value of a plan's assets to its "projected benefit obligation." The projected benefit obligation is the present value of retirement benefits owed to current retirees and the benefits accrued to date by current employees and former employees who are not yet eligible to draw benefits. The measure also takes into account the impact that projected salary increases will have on the accrued benefits of current employees. This method allows for an apples-to-apples analysis of the health of the Plans. BGR, therefore, uses the Legislative Auditor's formula to determine the funded ratio.

The table gives the Plans' funded ratios from 1999 to 2011, measured against the minimum ratio recommended by the U.S. Government Accountability Office (GAO).

FUNDED RATIOS (ACTUARIAL VALUE OF ASSETS TO PROJECTED BENEFIT OBLIGATIONS), 1999 TO 2011

	Funded Ratio for Fiscal Year						
Plan	**1999**	**2001**	**2003**	**2005**	**2007**	**2009**	**2011**
Parochial Employees Plan A	101.5%	99.1%	87.9%	89.6%	101.6%	93.4%	90.0%
District Attorneys	129.7%	128.5%	103.7%	100.6%	109.6%	91.6%	90.0%
Municipal Employees Plan B	100.6%	92.3%	81.3%	80.1%	94.7%	91.1%	88.4%
S&WB	107.0%	121.7%	103.5%	99.2%	96.8%	88.2%	82.6%
Municipal Employees Plan A	92.9%	91.0%	78.8%	78.4%	87.9%	84.4%	81.8%
Sheriffs	94.4%	87.8%	81.9%	80.3%	90.1%	80.0%	81.0%
GAO Recommended Minimum							**80.0%**
Assessors	74.9%	66.4%	59.5%	65.9%	77.8%	82.0%	79.7%
Registrars of Voters	112.9%	104.2%	91.5%	88.2%	97.2%	83.6%	78.0%
Louisiana Firefighters	92.8%	82.3%	72.3%	83.5%	88.6%	78.4%	76.4%
New Orleans Municipal	142.2%	114.6%	104.1%	105.5%	94.0%	80.9%	74.8%
Clerks of Court	74.7%	76.6%	67.8%	66.8%	78.9%	70.8%	74.2%
School Employees	134.4%	114.5%	84.0%	78.9%	83.3%	65.5%	59.9%
Municipal Police	110.6%	105.6%	77.4%	83.6%	93.5%	65.2%	58.1%
Lasers*	72.1%	72.8%	66.0%	61.3%	66.8%	59.3%	57.6%
Teachers*	80.1%	82.7%	62.4%	65.1%	74.3%	59.1%	55.1%
New Orleans Firefighters (New)	110.6%	98.8%	90.1%	79.8%	81.0%	54.4%	40.3%

*Teachers and Lasers report the financial results for their Plans on a combined basis.

Sources: For the state and statewide Plans, BGR drew data from the annual reports of the Louisiana Legislative Auditor. See *Actuarial Reports on Louisiana Public Retirement Systems*, 1999-2011. For the local Plans, BGR drew information from each Plan's annual actuarial valuation reports.

APPENDIX 5: UNFUNDED LIABILITY AS A PERCENTAGE OF PAYROLL

In addition to the funded ratio, a plan's unfunded liabilities – both in raw dollars and as a percentage of payroll – can provide a window into the health of a plan. As with the funded ratio, BGR substituted projected benefit obligation for accrued liability in order to create an apples-to-apples comparison of the unfunded liabilities of the Plans.

In general, if the ratio of unfunded obligations to payroll is decreasing, the plan is gaining financial strength. If it is increasing, the obligations of the plan are imposing a growing burden on government. The ratios for all the Plans have been increasing. Since 1999, the ratio has more than doubled for Lasers. It has increased by 86% for the Teachers Plans. Two Plans that had no unfunded projected benefit obligation (PBO) 13 years ago, Municipal Police and School Employees, now have ratios that exceed 300% of payroll. The unfunded PBO of the New Orleans Firefighters (New) Plan has skyrocketed in recent years to an astounding 790% of payroll.

While funding ratios and comparisons of unfunded PBO to payroll certainly tell much of the story, the severity of the situation facing certain Plans is highlighted in the raw total of their unfunded PBOs – the gap in dollars between the value of the Plans' assets and the benefits they owe. The Teachers and Lasers Plans have unfunded PBOs of $10.8 billion and $6.5 billion, respectively. The Municipal Police and School Employees Plans' unfunded PBOs exceed $900 million.

UNFUNDED PROJECTED BENEFIT OBLIGATIONS AS PERCENTAGE OF PAYROLL, 1999 TO 2011

	Unfunded PBO as % of Payroll				
Plan	**Fiscal Year 1999**	**Fiscal Year 2003**	**Fiscal Year 2007**	**Fiscal Year 2011**	**2011 Unfunded PBO ($ millions)**
Teachers*	148.7%	180.3%	184.8%	277.0%	$10,810.5
Lasers*	115.6%	171.9%	187.4%	268.1%	$6,458.0
Municipal Police	none	159.3%	46.4%	340.0%	$929.4
School Employees	none	153.7%	120.5%	304.9%	$904.6
Sheriffs	14.3%	52.2%	33.4%	72.8%	$453.3
Firefighters	51.3%	207.9%	84.2%	193.2%	$373.2
Parochial Employees Plan A	none	43.7%	none	47.1%	$260.0
New Orleans Firefighters (New)	none	83.4%	239.1%	789.9%	$236.9
Municipal Employees Plan A	25.7%	89.8%	60.7%	97.8%	$160.7
Clerks of Court	99.8%	145.2%	111.0%	154.6%	$135.1
New Orleans Municipal	none	none	39.9%	136.3%	$127.6
Assessors	139.1%	269.8%	150.3%	159.7%	$59.1
S&WB	none	none	27.7%	162.5%	$48.3
District Attorneys	none	none	none	50.6%	$28.0
Municipal Employees Plan B	none	43.8%	12.9%	30.6%	$20.0
Registrars of Voters	none	55.4%	18.7%	146.6%	$19.1

* Teachers and Lasers report the financial results for their Plans on a combined basis.

Source: Louisiana Legislative Auditor, *Actuarial Reports on Louisiana Public Retirement Systems,* 1999-2011; and the Plans' actuarial reports and audits.

Note: "None" means a surplus of assets existed that year.

APPENDIX 6: MINIMUM ELIGIBILITY REQUIREMENTS FOR COLLECTING ACCRUED BENEFITS

PLAN	For New Members, as of 1/1/12
Non-Public Safety Plans	
Assessors	12 years of service at age 55, or 30 years of service at any age.
New Orleans Municipal	5 years of service at age 65, 10 years of service at age 60, 30 years of service at any age; or any combination of years of service plus age equal to or greater than 80.
Clerks of Court	12 years of service at age 60.
District Attorneys	10 years of service at age 60, 24 years of service at age 55, or 30 years of service at any age.
Lasers Judges	5 years of service at age 60.
Lasers Regular	5 years of service at age 60.
Municipal Employees Plan A	10 years of service at age 60 or 25 years of service at any age.
Municipal Employees Plan B	10 years of service at age 60 or 30 years of service at any age.
Parochial Employees Plan A	7 years of service at age 67, 10 years of service at age 62, or 30 years of service at age 55.
Registrars of Voters	10 years of service at age 60, 20 years of service at age 55, or 30 years of service at any age.
School Employees	5 years of service at age 60.
S&WB	5 years of service at age 62, age 70 regardless of years of service, 30 years of service at any age, or years of service plus age equal to or greater than 80.
Teachers Regular	5 years of service at age 60.
Teachers Plan B	5 years of service at age 60 or 30 years of service at age 55.
Public Safety Plans	
Firefighters	12 years of service at age 55, 20 years of service at age 50, or 25 years of service at any age.
Municipal Police	12 years of service at age 55, 20 years of service at age 50, or 25 years of service at any age.
New Orleans Firefighters (New)	12 years of service at age 50.
Sheriffs	12 years of service at age 62, 20 years of service at age 60, or 30 years of service at age 55 .

Sources: Louisiana Revised Statutes; Code of Ordinances of the City of New Orleans, Sec. 114-201(a); and Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board of New Orleans, Sec. 6.1.

END NOTES

[1] Munnell, Alicia, Jean-Pierre Aubry, Josh Hurwitz and Laura Quinby, "Comparing Compensation: State-Local Versus Private Sector Workers," Center for Retirement Research, September 2011, p. 4; and Schmitt, John, "The Wage Penalty for State and Local Government Employees," Center for Economic and Policy Research, May 2010, pp. 5-9.

[2] Aon Consulting, *Replacement Ratio Study: A Measurement Tool for Retirement Planning*, 2008, p. 4.

[3] New members working in hazardous duty occupations will be exempt from the change and enter the traditional defined benefit plan. La. Acts 2012, Reg. Sess., No. 483.

[4] The Revenue Sharing Fund was created to offset tax revenue losses suffered by local governments because of the homestead exemption. If the money were not dedicated to pensions, it would be available for other local government purposes.

[5] In calculating operating expenditures, BGR included general and other operating funds and excluded capital costs and principal payments on debt.

[6] The city's 2010 operating expenditures totaled $691.4 million. This includes the general fund and other operating funds of the city. It excludes capital expenditures and principal payments on debt. City of New Orleans, *Basic Financial Statements, December 31, 2010*, p. 18. As a percentage of general fund expenditures, the city's pension burden was 15.2%.

[7] For state and statewide systems, see La. R.S. 11:102 and 11:103. For the New Orleans Municipal Plan, see City of New Orleans, Code of Ordinances, Sec. 114-268 and 114-270. For the S&WB Plan, see La. R.S. 11:3821(A) and the Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board of New Orleans, Sec. 8.3. For the New Orleans Firefighters' Pension and Relief Fund, see La. R.S. 11:3384(F).

[8] The total assessed value of property in Jefferson Parish in 2010, after deducting the value of the homestead exemption, was $3.2 billion. Louisiana Tax Commission, *2010 Annual Report*.

[9] The total assessed value of property in St. Tammany Parish in 2010, after deducting the value of the homestead exemption, was $1.6 billion. Ibid.

[10] BGR calculation based on the Louisiana Tax Commission's estimate of total local and parish taxes collected in Orleans Parish in 2012. Louisiana Tax Commission, *2011 Annual Report,* p. 80. This does not include payments that the city made on behalf of all tax-recipient bodies in 2012 to the Clerks of Court and District Attorneys Plans of $500,000 and $350,000, respectively, to settle claims for missed payments from previous years.

[11] In calculating the amount of other revenue per benefit recipient, BGR included active members, current retirees and their beneficiaries, other vested members, and participants in deferred retirement, or DROP, programs.

[12] U.S. Government Accountability Office, *State and Local Government Retiree Benefits: Current Funded Status of Pension and Health Benefits,* GAO-08-223, January 2008, p. 3.

[13] American Academy of Actuaries, *Issue Brief: The 80% Pension Funding Myth*, July 2012.

[14] Wilshire Consulting, *2011 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation*, February 28, 2011, p. 3.

[15] See Louisiana Legislative Auditor, *2011 Actuarial Report on Louisiana Public Retirement Systems*, April 2012, p. 65. The Louisiana Legislative Auditor does not use the actuarial accrued liability to determine a plan's funded ratio. The auditor compares the actuarial value of a plan's assets to its "projected benefit obligation." The projected benefit obligation is the present value of retirement benefits owed to current retirees and the benefits accrued to date by current employees and former employees who are not yet eligible to draw benefits. The measure also takes into account the impact projected salary increases will have on the accrued benefits of current employees. In this report, BGR uses the Legislative Auditor's formula to determine the funded ratio.

[16] La. Const. Art. X, Sec. 29(E).

[17] La. Acts 1988, Reg. Sess., No. 81; and La. R.S. 11:42.

[18] BGR calculations based on information from SJ Actuarial Associates, *Actuarial Valuation Report of the Teachers' Retirement System of Louisiana*, October 1, 2011, p. 57; and SJ Actuarial Associates, *Actuarial Valuation Report of the Louisiana State Employees' Retirement System*, September 27, 2011, p. 57.

[19] Louisiana Legislative Auditor, pp. 121-122.

[20] For Parochial Employees Plan A and the Sheriffs Plan, the rate is set by each Plan's board of trustees within a statutory range of percentages. For the New Orleans Firefighters (New) Plan, the rate is set by its board of trustees at a rate not to fall below 6%. The employee contribution rate for the S&WB Plan is set forth in regulations promulgated by its board of trustees.

[21] BGR calculated median employee contribution rates for Unsupplemented plans using 2010 data compiled and presented by the Public Fund Survey. See www.publicfundsurvey.org. Calculations using 2009 data collected by the Center for Retirement Research's Public Plans Database yielded the same median. See www.pubplans.bc.edu.

[22] BGR calculated median employee contribution rates for Supplemented plans using 2010 data compiled and presented by the Public Fund Survey. Calculations using 2009 data collected by the Center for Retirement Research's Public Plans Database

yielded the same median.

[23] City of New Orleans, Code of Ordinances, Sec. 114-259.

[24] La. R.S. 11:1481(2)(b)(i); La. R.S. 11:1562(C) and La. R.S. 11:2174(B)(3)(b).

[25] Jefferson Parish Sheriff's Office, *Comprehensive Annual Financial Report for the Year Ended June 30, 2011*, p. 87.

[26] For employees hired after 1986, the portion of the employee contribution paid on the employee's behalf is limited to 0.25%. Information provided by the Jefferson Parish budget office.

[27] The formula for the S&WB Plan is set forth in regulations promulgated by its board of trustees.

[28] U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Retirement Benefits in State and Local Governments in the United States, 2007*, May 2008, p. 18. A study conducted by the Wisconsin Legislative Council arrived at similar findings: 55% of plans it surveyed use a three-year period, while 25% use a five-year period. See Wisconsin Legislative Council, *2010 Comparative Study of Major Public Employee Retirement Systems*, December 2011, p. 25.

[29] The District Attorneys Plan will switch to a 60-month compensation period for all members starting in 2013. La. Acts 2012, Reg. Sess., No. 515. For the New Orleans Municipal Plan, the period will rise to 48 months in 2014 and 60 months in 2015. Code of Ordinances of the City of New Orleans, Sec. 114-56.

[30] The Registrars of Voters and Sheriffs Plans impose a cap of 25% on members hired before July 1, 2006. They impose no cap on those hired on or after that date. The Assessors Plan imposes a 25% cap on those hired before October 1, 2006. It imposes no cap on members hired on or after that date. La. R.S. 11:231.

[31] BGR calculation.

[32] Peng, Jun, *State and Local Pension Fund Management* (Boca Raton, Fla.: Taylor & Francis Group, LLC, 2009), p. 30.

[33] BGR calculations based on data presented in the Public Fund Survey for Fiscal Year 2010.

[34] Munnell, Alicia, *State and Local Pensions: What Now?* (Washington, D.C.: Brookings Institution Press, 2012), p. 30.

[35] Bureau of Labor Statistics, *Census of Fatal Occupational Injuries Charts, 1992-2010*, p. 19; and Bureau of Labor Statistics, *Fatal Occupational Injuries and Nonfatal Occupational Injuries and Illnesses, 2008*, Report 1028, p. 17.

[36] BGR calculations using the formulas set forth in applicable law. BGR assumed annual salary increases of 3% and discounted future benefits to 2012 dollars using an assumed inflation rate of 3%.

[37] Wisconsin Legislative Council, pp. 27-28.

[38] La. R.S. 11:1631 through 1633.

[39] U.S. Social Security Administration, *Retirement benefits by year of birth*, www.socialsecurity.gov/retire2/agereduction.htm.

[40] That number will fall to six starting in 2013, when new eligibility requirements for new members of the Registrars of Voters Plan and Municipal Employees Plans A and B take effect. See La. Acts 2012, Reg. Sess., Nos. 719 and 720.

[41] Nine of the 18 Plans offer an actuarially reduced benefit to members who wish to retire early. They include: Municipal Employees Plan A, Municipal Police, School Employees, both Lasers and Teachers Plans, New Orleans Municipal and S&WB.

[42] Peng, p. 30; Bureau of Labor Statistics, *Census of Fatal Occupational Injuries Charts, 1992-2010*, p. 19; and Bureau of Labor Statistics, *Fatal Occupational Injuries and Nonfatal Occupational Injuries and Illnesses, 2008*, Report 1028, p. 17.

[43] Center for Retirement Research, Public Plans Database, *Charts: Distribution of State and Local Pension Plans by COLA Type, 2009*, www.pubplans.bc.edu.

[44] Ibid.

[45] City of New Orleans, Code of Ordinances, Sec. 114-204(7) and City of New Orleans Employee Retirement System, *Actuarial Valuation Report As of January 1, 2011*, p. 2.

[46] Rules and Regulations of the Employees' Retirement System of the Sewerage & Water Board of New Orleans, Sec. 6.1(d)(1).

[47] The calculations assume 30 years of service, a starting salary of $40,000 and 3% raises each year. The annual benefit and total contributions are discounted to 2012 dollars using an assumed inflation rate of 3%.

[48] These calculations do not include benefits received from, or contributions paid to, Social Security. It is limited strictly to the worker's defined benefit pension plan.

[49] Aon Consulting, p. 4. Anderson, Gary W., and Keith Brainard, *Profitable Prudence: The Case for Public Employer Defined Benefit Plans*, prepared for presentation at the 2004 Pension Research Council Symposium, April 2004, p. 13. See also Peng, p. 53.

[50] Aon Consulting, p. 4.

[51] Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States – March 2011*, Bulletin 2771. Access rates are distinct from participation rates. Of those workers who had access to an employer-provided retirement plan, 95% of state and local government workers and 76% of private industry workers took advantage of it.

[52] Wiatrowski, William J., "The Structure of State and Local Retirement Benefits, 2008," Bureau of Labor Statistics, February 25, 2009.

[53] Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States – March 2011*.

[54] Steffen, Karen, "State Employee Pension Plans," in Mitchell, Olivia E., and Edwin Hustead, eds., *Pensions in the Public Sector* (Philadelphia: University of Pennsylvania Press, 2001), pp. 41-42.

[55] Lowenstein, Roger, *While America Aged: How Pension Debts Ruined General Motors, Stopped the NYC Subways, Bankrupted San Diego, and Loom as the Next Financial Crisis* (Penguin Press, 2008), pp. 54-55.

[56] Hiltonsmith, Robert, "The Failure of the 401(k): How Individual Retirement Plans are a Costly Gamble for American Workers," *Demos*, November 9, 2010, pp. 7-8.

[57] The study does not include those who participate in a defined benefit plan. Saad-Lessler, Joelle, and Teresa Ghilarducci, "Fact Sheet: SCEPA's Retirement Income Security Project, Near Retirees' Defined Contribution Retirement Account Balances," *Schwartz Center for Economic Policy Analysis*, July 2012.

[58] Louisiana Department of Revenue, "Frequently Asked Questions: Individual Income Tax," www.rev.state.la.us/sections/FAQ/default.aspx?type=GEN&cat=PER#faq-277.

[59] La. R.S. 47:44.2.

[60] State law exempts the first $6,000 of retirement income from taxation. La. R.S. 47:44.1 and La. Admin. Code, 61:I.1311.

[61] Munnell, p. 4, and Schmitt, pp. 5-9.

[62] Louisiana Assessors' Retirement Fund, *2011 Comprehensive Annual Financial Report*, p. 10; and Sheriffs' Pension and Relief Fund, *2011 Comprehensive Annual Financial Report*, p. 12.

[63] La. R.S. 22:1476.

[64] La. R.S. 22:342 et seq.

[65] It also supports the state fire marshal and certain fire training programs. La. R.S. 22:347.

[66] La. R.S. 22:347(E).

[67] Firefighters' Pension and Relief Fund of the City of New Orleans, *2011 Comprehensive Annual Financial Report*, p. 5.

[68] Police Pension Fund of the City of New Orleans, *2011 Comprehensive Annual Financial Report*, p. 5.

[69] Louisiana Legislative Auditor.

80 YEARS

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