

NEW ORLEANS
JUNE 2018



CITY HALL

From Answers to Action

Post-Election Policy Making: Employee Compensation and Pensions

Read the full report at
www.bgr.org



BACKGROUND

BGR has extensively studied the employee pension plans in which local governments participate.* It found that, from 2009 to 2016, employer costs increased dramatically for the plans serving City police, firefighters and other municipal employees, as well as the Sewerage & Water Board's (S&WB) plan.

Employer costs depend heavily on the performance of plan investments. If investment earnings, combined with employee contributions, are insufficient to pay for the promised benefit, the employer must make up the difference. Ultimately, this risk falls on City taxpayers and S&WB ratepayers. In many cases, they must help to pay for public sector retirement benefits that are far more generous and secure than their own.

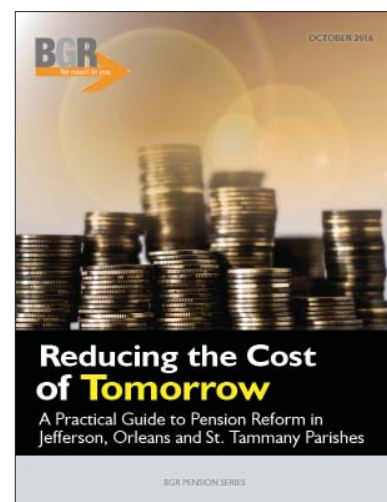
BGR's latest pension report analyzed several options for changing the plans to reduce their costs and risks.** It recommended that policymakers consider alternative plan designs that would shift some, if not all, risk away from public employers. While employees take on additional risk, they also would enjoy greater plan portability. These plan designs may also better reflect the evolving expectations and career patterns of the work force. At a minimum, policymakers should pursue reforms to the existing defined benefit offerings to bring them into alignment with national benchmarks. That implies

lowering multipliers to at least the national public sector median, raising the minimum retirement age, eliminating perks such as lump sum payment programs, limiting pre-retirement income replacement to a need-based level and leaving it to employees to self-fund cost of living adjustments.

In reforming pensions, the City and S&WB should analyze the sufficiency of their total compensation packages to attract and retain high-quality employees. It may be necessary to make offsetting adjustments in salary and other benefits. Policymakers should ensure that any changes and their costs are fair to taxpayers.

* BGR's collection of pension studies is available at <http://www.bgr.org/reports/category/pensions/>.

** BGR, *Reducing the Cost of Tomorrow: A Practical Guide to Pension Reform in Jefferson, Orleans and St. Tammany Parishes*, October 2016, available at <http://www.bgr.org/reports/bgr-cuts-paths-for-pension-reform-in-the-metro-area/>.



EMPLOYEE COMPENSATION AND PENSIONS

BGR varied its questions last year to reflect the different roles of the mayor and City Council on these issues. The mayor can take the lead on compensation as the City's CEO and the president of the S&WB. The City Council approves the pay plan for classified City and S&WB employees, on the recommendation of the Civil Service Commission. Some candidates refer to the need for a compensation study, which now has been completed.

On pensions, the City Council adopts the ordinances that implement the New Orleans Municipal Employees' Retirement System (NOMERS). It has no direct authority over the S&WB pension plan, meaning it falls to the mayor to lead any changes there. In December 2017, the council revised NOMERS benefits for new hires only. The changes included, among other things, lowering the multiplier for new hires to the national median.

PENSION REFORM



To what extent would you consider reforming City and S&WB pension plans to better manage their risks and costs? Please be specific about the changes you would pursue.

Mayor LaToya Cantrell

Given the relative health of the New Orleans Municipal Employees' Retirement System (NOMERS) comparable to other municipal systems, the fact that city employees have not received an across the board pay raise in nine years, and that they voted to substantially increase their own contribution to the system by 50 percent a few years ago, I do not believe it is appropriate to call for a large scale benefit reduction until pay raises are also considered.

Having said that, I would consider potential changes that the NOMERS board has already suggested, such as the increase in the retirement age for new hires and the expansion of time before a retirement plan is vested from 5 years to 10 years.



To what extent would you support changes to the City's pension plan to better manage its risks and costs? Please be specific.

Councilmember At-Large Helena Moreno

The City's pension systems are in varying levels of financial health. The City must work to balance rising retirement and health costs with maintaining a system that attracts and retains high-performing and reliable City employees.

Councilmember At-Large Jason Williams

... I absolutely support changes to the City's pension plan, and quickly. However there is a smarter way to balance the promises we have made that must be fulfilled, while creating new sustainable opportunities for the next 25 years and beyond.

General

Changes have to be fair, and make a long-term impact on the plan, not short-term gains that plug holes we have today, which is shortsighted. Many of the changes proposed by my colleagues have a small positive impact on the plan, but a large negative impact on the people (a little good for the plan, but a lot of bad for the people). There is a middle ground of common-sense changes that make a difference in the overall long-term health of the pension plan.

Existing Employees vs New Hires

... For employees that have already been hired, it's unreasonable to even think about changing their pension and benefits. They signed up under certain terms, and we must honor that agreement.

For new hires, we cannot forget that we are competing with other sectors and regions ...

Specifics

- Vesting – extending to 10 years is a smart move ...
- Plan reform changes apply to new hires only
- Improvements to maximize DROP such as requiring a transition plan
- Effective at the calendar year ...

EMPLOYEE COMPENSATION AND PENSIONS



To what extent would you support changes to the City’s pension plan to better manage its risks and costs? Please be specific.

CONTINUED

Councilmember Joseph “Joe” Giarrusso, III (District A)

If the City can manage risk by thoughtful, considered investing, it should pursue that option.

Councilmember Jay H. Banks (District B)

I don’t support cutting benefits city workers were promised and earned throughout their service, especially when we see managers and others making significant windfalls upon retirement. It’s incumbent upon the council to work towards ensuring the long term stability of our pension funds in order to make sure those who earned benefits truly receive them.

Councilmember Kristin Gisleson Palmer (District C)

In general, I am willing to consider all proposals for reform, and specifically BGR’s proposals.

Councilmember Cyndi Nguyen (District E)

Before I answer this question, I plan to spend time on reviewing the City’s pension plan and engaging expertise in the field for recommendation. I am with a mindset of making sure that we are not wasting/abusing of any situation. I am also in full support to make sure that we, the city, compensate people appropriately for serving our communities when it is time for them to retire.

EMPLOYEE COMPENSATION



How would your administration rethink the total compensation package (salary and benefits) offered to new and existing employees?

Mayor LaToya Cantrell

The Civil Service Commission is currently undergoing a large scale pay study that I believe will be helpful in providing context for how New Orleans pays its employees relative to other cities. This study will be helpful in determining best practices in other cities, and I would look to those best practices as we consider any changes to compensation packages.



How would you advise the City to rethink the total compensation package (salary and benefits) offered to new and existing employees?

Councilmember At-Large Helena Moreno

The City must be able to make market-competitive pay packages available for employees who can bring considerable value to public service.



How would you advise the City to rethink the total compensation package (salary and benefits) offered to new and existing employees?

CONTINUED

Councilmember At-Large Jason Williams

In general, the City needs to re-evaluate the way it attracts and retains critical institutional knowledge and dedicated employees that make sure the city continues to operate regardless of who is on the 2nd floor.

Higher Wages and Job Tracks for Career Advancement

We would need millions of dollars to pay city employees what they are worth. We also need better job tracks with more mid-level positions so there's opportunities for people to grow and develop professionally, and advance to positions with increased compensation.

Quality of Life

In recognition that we simply cannot compete with private sector wages, I am interested in exploring other ways to show our employees that they are valued, recognized, and appreciated, and that we care for them *today* and not just in 20 years when they retire.

I would like to invest in ways to improve the quality of life of our employees and their families. ... For example, flexible hours that allow people to come in a little earlier or later ...

New generations

If we want to attract and retain a new generation that will serve our City, we have to rethink what we are offering compared to what the labor force is commanding. Younger generations have different expectations from employers, and different perspectives on what benefits could or should be. ...

Councilmember Joseph “Joe” Giarrusso, III (District A)

As someone who respects the rule of law, for those who already have a property right in benefits, it seems difficult to unilaterally curtail benefits for those whose benefits have vested. It also seems unequitable to change the rules for those who are on the cusp of vesting. Further, wages of city workers have been lagging until recently and, for many in public safety who may have shorter careers, those wages may remain lagging. Of course, the City should study ways to ensure the long-term viability of compensation packages so that we may recruit and retain great employees and simultaneously maintain and expand top priorities in the City.

Councilmember Jay H. Banks (District B)

Moving forward, I do believe we need to match our compensation packages with market conditions. We have to be competitive with the market in order to keep good employees and make sure we can recruit well qualified new employees.

Councilmember Kristin Gisleson Palmer (District C)

The city should sit with a group of leaders from city government, employees, and civic leaders to see how the entire system is being funded and whether it's being applied equitably. I would like to see how New Orleans compares to other cities of similar size to see if we are in line with benefits, salaries and cost of living.

Councilmember Cyndi Nguyen (District E)

We should always be a cost-effective employer; however, we should also be competitive in our salary to recruit the best and the brightest to serve the people. We should be comparing salary with other states as well as to make sure that our fringe benefits are attractive.