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IN BRIEF

REDUCING THE COST OF TOMORROW

A Practical Guide to Pension Reform in Jefferson, Orleans and St. Tammany Parishes

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Why This Report Matters

From 2009 to 2016, the public's pension plan costs increased for all but one of the plans in which the governments in Jefferson, Orleans and St. Tammany parishes participate. In the City of New Orleans, pensions absorb 16 cents of every dollar citizens send to the general fund – a pot of money that also must be used to pay for basic services.

In many cases, citizens are helping to pay for public sector retirement benefits that are far more generous and secure than their own. In fact, in the eight-parish New Orleans area, roughly half of the private sector workers lack access to any form of employer-supported retirement plan, much less a government-style defined benefit plan.

The fourth part in a series, *Reducing the Cost of Tomorrow* examines an array of potential reforms to the 18 public pension plans in which local government employers in Jefferson, Orleans and St. Tammany parishes participate. It advances the case for more efficient use of taxpayer dollars.

Options to Reform Defined Benefit Plans

Reducing the Cost of Tomorrow explores in detail the changes to public pension benefits policymakers can make to reduce the costs and risks associated with the pension plans. Among the options BGR sets forth:

- Require employees to make contributions that at least match the national medians for public pension plans.
- Set multipliers – the rate at which retirement benefits accrue – no higher than the national medians.
- Consider implementing a longer final average compensation period and cap year-over-year salary increases for benefit calculation purposes at 10%.
- Establish benefit caps on a sliding scale based on an employee's pre-retirement income – generally targeting 70% income replacement.
- Establish a fixed retirement age more in line with the normal retirement age under Social Security (with exceptions).
- Eliminate publicly-funded cost of living adjustments.
- Eliminate deferred retirement options.

Alternative Plan Structures

Alternatively, policymakers can reduce the costs and risks associated with public pension plans by moving to a different model entirely:

- Defined contribution plans, the predominant private-sector model, shift the investment risks to employees.
- Hybrid plans combine defined contributions with a reduced defined benefit component so that employers and employees share in the risks.
- Cash balance plans function like defined contribution plans but provide a guaranteed minimum return – a floor – on employee contributions.

The Takeaway

Public employees and private citizens alike bear the cost of past generations' pension excesses. Policymakers ought to consider alternative pension plan designs that, in the long run, halt this generational cost transfer. These plan designs 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 to a more reasonable level. 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.

Read the full report at **www.bgr.org**.