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INBRIEF

A RETREAT ON PENSION REFORM

City of New Orleans Reverses Steps to Rein in Sharply Rising Pension Costs by Increasing Benefits

June 2021

WHY THIS REPORT MATTERS

With almost no public discussion or justification, the City of New Orleans retroactively increased pension benefits last fall by 32% for about 1,000 employees hired since 2018, and all future hires, at substantial cost to the public. This reversed reforms enacted just three years ago to address a steady weakening of the pension system's finances and a steep rise in the public's costs. The higher benefits will consume limited public resources that could have funded other City needs. BGR's analysis of the pension increases found significant problems with virtually every aspect of the decision-making process. Moreover, officials with the City and pension system did not respond to BGR's repeated questions about the pension increases.

KEY FINDINGS

- In late 2017, the City Council reduced pension benefits for employees hired on or after January 1, 2018, to match national norms. In response to concerns raised during extensive public discussion, the council excluded then-current employees from the benefit reduction. The reforms aligned with recommendations from a series of BGR reports that found many pension systems for local public employees, including the City's, provide benefits well in excess of national norms at substantial cost to taxpayers.

- In reversing the pension reforms in October 2020, City administrators stated that the higher benefits are necessary for competitive reasons. However, in response to a BGR public records request, they indicated they have no data substantiating problems with hiring and retention to justify the across-the-board pension increase.

- The more generous benefits significantly exceed the national norm for public pension systems that participate in Social Security, such as the City's. An employee who starts at $40,000 and retires after 30 years will receive more in annual pension and Social Security benefits than in salary while working. The changes apply to about a third of the 3,000 employees enrolled in the New Orleans Municipal Employees' Retirement System (NOMERS), which includes all City employees except police and firefighters.

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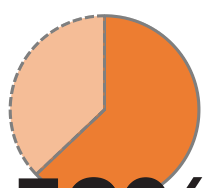
KEY NUMBERS

32%
pension benefit increase for about 1,000 employees hired since 2018 and all future hires

$300 million
unfunded gap between assets and accrued benefits for the NOMERS pension plan



59%
funded ratio of plan assets to plan liabilities. The recommended goal is 100%; below 70% is cause for serious concern.

700%
increase in the public's annual contributions to the retirement system since 2008

INBRIEF

- With the reversal of the pension system reforms, NOMERS' plan for closing an existing $300 million gap between its assets and employees' accrued benefits places the entire financial burden on the public in the form of large annual catch-up contributions for at least the next 25 years.

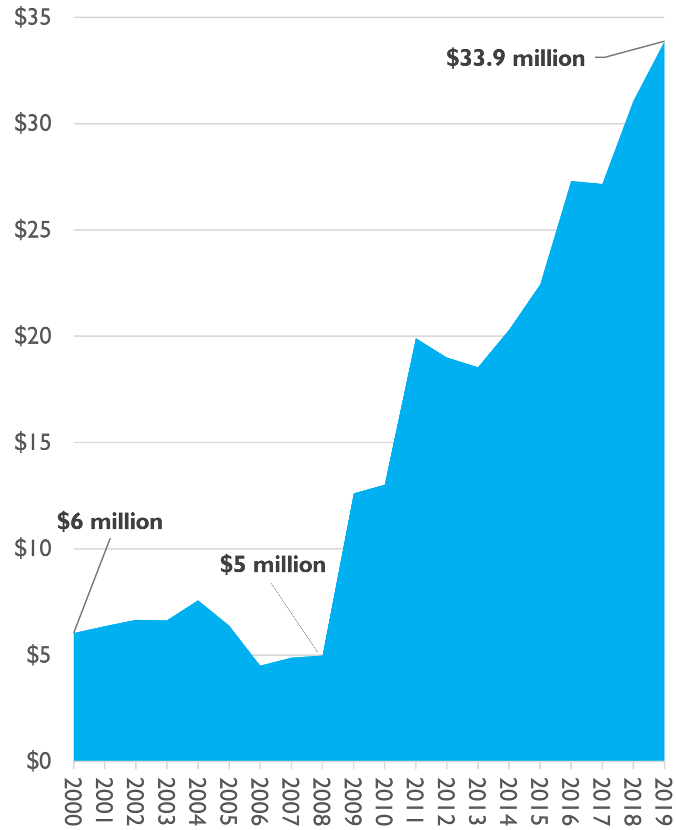
- The higher benefits rolled back efforts to control the public's pension system costs, which ballooned from $5 million in 2008 to $33.9 million in 2019, a nearly 700% increase. (See chart.)

- NOMERS' actuarial projections for the public costs of the benefit increases over 30 years have varied widely from less than $19 million to $115 million. Officials with NOMERS and the City did not respond to BGR's repeated requests seeking an explanation for these large fluctuations.

- While the City emphasized that the public's pension contributions will drop by an estimated $5.8 million in 2021, this is due to a decision to spread the catch-up payments over a longer time period. It does not reflect an improvement in the system's finances. Moreover, the public's costs could increase if the system does not achieve an ambitious target rate of return on its investments.

- An opaque decision-making process minimized public discussion and input, leaving taxpayers unaware of the substantial new costs they must bear for decades to come.

PUBLIC CONTRIBUTIONS TO THE NEW ORLEANS MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM, 2000 TO 2019
($ in millions)



Note: Public contributions totaled $33.9 million, of which $30.7 million came from the City and the balance from other participating Orleans Parish government employers.

Sources: New Orleans Municipal Employees' Retirement System financial statements and actuarial reports

SUMMARY OF RECOMMENDATIONS

- The City Council should restore the more financially sustainable benefit structure from the 2017 pension reforms. While there are legal questions about whether the council can apply the reinstatement to current employees hired since the beginning of 2018, it is not prevented from doing so for future hires. If the City administration subsequently demonstrates any problems with hiring or retention in certain departments or positions, it should seek targeted, cost-effective and sustainable compensation changes to address them rather than an across-the-board pension increase.

- NOMERS officials, the City administration and the City Council should improve their stewardship of, and public accountability for, the weakening pension system. As BGR has previously recommended, this should include consideration of alternative retirement plan designs. For example, defined contribution plans or hybrid plans that combine defined contributions with a reduced defined benefit would shift some risk from employer to employees in exchange for greater plan portability if they change jobs. The officials also should explain the widely varying cost estimates for the benefit increases.