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BGR MEDIA RELEASE

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BGR Urges City of New Orleans to Reinstate Pension Reforms and Improve Weakening Pension System

Today, the Bureau of Governmental Research (BGR) releases *A Retreat on Pension Reform: City of New Orleans Reverses Steps to Rein in Sharply Rising Pension Costs by Increasing Benefits*. The report examines the City's little-publicized decision last fall to retroactively increase pension benefits by 32% for about 1,000 employees hired since 2018, and all future hires, at substantial public cost. This reversed a benefit reduction 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. BGR's analysis of the pension increases reveals significant problems with virtually every aspect of the decision-making process. The report's key findings include:

- City administrators stated that the higher benefits are necessary for competitive reasons, yet 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.

- 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. Costs increased as the pension system's financial position weakened. It reached or exceeded its target rate of return on investments just once in the past 16 years, and its current 59% ratio of assets to liabilities is well short of the best-practice 100% funding goal and below the 70% threshold that pension experts say is cause for serious concern.

- 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. This troubling lack of transparency undermines citizens' ability to evaluate the pension increases.

- While the City emphasized that employer 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.

Based on this analysis, BGR makes the following key 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.

A two-page InBrief summary of the report is available here.
The full report, including an executive summary, is available here.

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information, call (504) 525-4152 or visit BGR's website, www.bgr.org.