PUTTING STATE PENSION COSTS IN CONTEXT: LOUISIANA

PUBLIC PENSIONS HAVE BEEN IN THE spotlight in Louisiana during the past few years. In 2012 Gov. Bobby Jindal, who had described the state’s retirement system as “inefficient, expensive and outdated,” signed legislation providing that new state employees would be put in a cash balance plan instead of the traditional defined-benefit coverage existing employees enjoy. The move was challenged as a violation of a provision in the state constitution requiring a two-thirds vote of the legislature on certain pension changes. That argument was upheld by the Louisiana Supreme Court. Jindal and other proponents of the cash balance approach plan to try again.

While many pension numbers are bandied about, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Louisiana there are two main plans administered by the state: the Louisiana State Employees’ Retirement System (LASERS) and the Teachers’ Retirement System of Louisiana (TRSL). The most recent financial reports indicate annual employer normal costs of $132.3 million for LASERS. For TRSL the figure is $216.1 million. The total is thus $348.4 million.

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

Louisiana has a reputation of awarding large subsidy packages to corporations. In the Megadeals report Good Jobs First published in June 2013, we identified 11 deals in the state worth $75 million or more, or a total of $3.1 billion. Among these were a $1.7 billion package for Cheniere Energy’s natural gas liquefaction plant in 2010; $257 million for Sasol’s natural gas complex in 2013; and $255 million for a Nucor steel mill in 2010. These individual deals are the most visible part of a system in which the state gives away hundreds of millions of dollars each year in corporate subsidies in the name of job creation. Louisiana’s most expensive subsidy is the Motion Picture Investor Tax Credit, which costs more than $227 million a year.

The other main programs are the Industrial Tax Exemptions, which cost about $97 million per year and Enterprise Zones, which cost $67 million. An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs Louisiana about $28 million a year. Louisiana provides other lucrative tax breaks for business. For example, preferential treatment of Subchapter S corporations costs the state $473 million in corporate tax revenue each year. And Insurance Company Premium Tax Credits cost $296 million. The Research & Development Tax Credit costs $41 million.

Louisiana is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor
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1 The quote is from Richard Thompson, “Crisis looms for state pensions; funding gap is staggering,” New Orleans Times-Picayune, November 9, 2012 (via Nexis).
3 http://www.lasersonline.org/site104.php (derived by multiplying the covered payroll figure on page 28 of the 2012-2013 report by the employer normal cost rate on page 106).
4 http://www.trsl.org/main/inside.php?section=my_trsl&page=reports (derived by multiplying the covered payroll figure on page 33 of the 2013 report by the employer normal cost rate on page 40).
5 http://www.goodjobsfirst.org/megadeals
6 http://www.goodjobsfirst.org/subsidy-tracker/la-cheniere-energy
7 http://www.goodjobsfirst.org/subsidy-tracker/la-sasol
8 http://www.goodjobsfirst.org/subsidy-tracker/la-nucor
10 Derived from the sum of the 2012 approvals at http://www.louisianaeconomicdevelopment.com/page/performance-reporting. Because these are ten-year figures, the total was divided by ten to obtain an annual amount.
11 This and the following figures in this paragraph come from: http://www.rev.state.la.us/forms/publications/TEB%282012%29.pdf
12 The figures in this paragraph come from: http://www.rev.state.la.us/forms/publications/TEB%282012%29.pdf