GOOD JOBS FIRST

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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 Bobby Jindal, who had described the state's retirement system as "inefficient, expensive and outdated," signed legislation providing that new state employees would be put in a cash balance plan instead of the traditional defined-benefit coverage existing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.[1] 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.[2] 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.[3] For TRSL the figure is $216.1 million.[4] 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.[5] Among these were a $1.7 billion package for Cheniere Energy's natural gas liquefaction plant in 2010[6]; $257 million for Sasol's natural gas complex in 2013[7]; and $255 million for a Nucor steel mill in 2010.[8]

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.[9]

The other main programs are the Industrial Tax Exemptions, which cost about $97 million per year[10] and Enterprise Zones, which cost $67 million.[11] 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.[12] 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 (payroll, property and sales) weighting. The state's tax expenditure report does not estimate the revenue loss from the use of single sales factor.

Another way Louisiana loses corporate income tax revenue is through its failure to adopt a reform known as combined reporting, which is designed to make it more difficult for large companies to export a substantial portion of their Louisiana profits to passive investment companies in states such as Delaware or Nevada, thereby shielding a substantial portion of their Louisiana income from any taxation. The state's tax expenditure report also fails to estimate the revenue cost resulting from this policy, but the Louisiana Budget Project has put it at up to $61 million a year.[13]

Yet another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013 the U.S. PIRG Education Fund published a report in which it calculated the impact on this practice on each state. For Louisiana the estimated annual cost is $489 million.[14]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $1.8 billion per year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Louisiana public employees belonging to the main state administered public pension systems is only 19 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

Motion Picture Investor Tax Credit	$227,355,990
Industrial Tax Exemption	$97,000,000
Enterprise Zones	$67,184,450
Quality Jobs Program	$32,413,412
Vendor's Compensation	$28,403,974
Subchapter S corporations	$473,657,011
Insurance Company Premium Tax Credits	$296,571,082
Research and Development Tax Credit	$41,143,160
Single sales factor	Unknown
Failure to adopt combined reporting	$61,000,000
Revenue loss from corporate use of offshore tax havens	$489,000,000
TOTAL	**$1,813,729,079**

NOTES:

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).

2 http://www.rseala.org/images/Newsletters/jul-aug-sep2013.pdf

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

9 http://www.labudget.org/lbp/2012/08/louisiana-film-tax-credits-costly-giveaways-to-hollywood/

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

13 http://www.labudget.org/lbp/wp-content/uploads/2010/10/Combined-Reporting-RELEASE-FINAL.pdf

14 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); http://uspirg.org/reports/usp/hidden-cost-offshore-tax-havens