



Amendment No. 3: Amendment proposes pay as you go retirement benefit funding

October 10, 2007

Editor's note: The following information is provided by the Public Affairs Research Council of Louisiana as a guide to the proposed constitutional amendments on the ballot Oct. 20.

Funding of state retirement systems

CURRENT SITUATION: Louisiana has four "state" retirement systems and nine "statewide" retirement systems. (See Table 1.) The Constitution provides that benefits for members of those systems can be altered only by legislative enactment. As the Legislature provides new retirement benefits or increases existing ones, a higher level of contribution is required from the state general fund in order to satisfy those benefits. No specific funding source must be identified. Employer contributions are the funding source by default.

Prior to 1988, the state failed to ensure that appropriate employer contributions kept pace with benefits, resulting in an "unfunded accrued liability" (UAL), which is the debt owed by the state to fully fund its retirement systems. UAL also can be created in other ways, such as investment losses, large pay raises or increased longevity of retirement system members.

The UAL can be divided into two groups. The "initial" UAL, which is the amount of debt that was in existence as of June 30, 1988, is constitutionally mandated to be paid off by 2029. The "new" UAL, created after June 30, 1988, is generally amortized over 30 years.

Louisiana adheres to an annual payment schedule in order to retire the debt as required.

Portions of the existing payment schedule are back-loaded, with payments set to balloon over time as the 2029 payoff date nears.

PROPOSED CHANGE: This amendment would apply to benefits for members of the four state retirement systems only, which specifically include teachers, school employees and state employees including state troopers. The amendment would prohibit changes in future benefit provisions unless certain conditions are met.

The amendment makes two changes to current procedure. New or additional funding (from the state general fund or elsewhere) for benefits would have to be identified at the time the benefits are created.

Further, the funding for those benefits would have to be capable of retiring the corresponding UAL within 10 years.

COMMENT: Louisiana's total UAL now exceeds \$12 billion. Similar to a mortgage that is paid over time, longer payment terms mean more interest paid.

Proponents argue that it is fiscally irresponsible to increase the state's UAL with new benefits that are not tied to funding sufficient to retire the corresponding UAL within 10 years. Long-term implications could be that the state would have to cut future budgets in essential areas, such as education and health care, in order to retire the debt as provided by the Constitution.

Opponents argue that shortening the payoff time to 10 years may create new problems. Although interest will be saved, short-term payments will be higher. Additionally, there is fear that this requirement will reduce the Legislature's willingness to grant benefits in the future due to legislative concerns about the 10-year payoff requirement. Further, some critics of the amendment are concerned about the resulting lack of budgetary flexibility this would create. For instance, if a future hurricane demanded that UAL payments be reduced long enough to satisfy immediate needs, the Legislature no longer would have the flexibility to do so without incurring larger payments in the remaining years of the payment schedule.