State of Louisiana

Bobby Jindal
Governor

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Office of the Governor

June 19, 2015

The Honorable Alfred W. Speer
Clerk of the House of Representatives
State Capitol
Baton Rouge, LA 70802

RECEIVED
JUN 19 2015
House of Representatives
Clerk's Office

Re: House Bill No. 42 by Representative Jones

Dear Mr. Speer:

House Bill No. 42 by Representative Jones grants a cost of living adjustment (COLA), which jeopardizes the state's credit rating by violating previous retirement reform efforts. In 2014, I signed Act 399, which granted a 1.5% COLA starting in July 2014 as long as COLAs were granted every other year until the system was 85% funded. This session, we worked with the author to amend House Bill No. 42 to maintain consistency with Act 399 and grant a COLA next year. In the last minutes of this Legislative Session, the author removed these amendments. Unfortunately, in its final form, this bill undoes prior reforms and undermines our commitment to keep our promises to Louisiana retirees.

Fitch explained in its April 2015 report:

> Funding of the state's two largest pension systems is below average and has been declining. Recent reform efforts may contribute to some modest improvement…Reform efforts in the 2014 legislative session included the passage of Act 399 that instituted reforms to how cost of living increases are granted to retirees and how excess investment earnings are to be applied to address the unfunded actuarially determined liabilities (UAALs), as well as the re-amortization schedule of the UAALs at various funded levels. The reforms are expected to reduce employer contributions and modestly improve the funded ratios of the systems. Annual contributions to LASERS have been consistently below the actuarially-calculated level.

Standard & Poor's wrote in its April 2015 report:

> The pension-funded ratio of 58.7% for 2014 is still weak…The 2014 state legislature passed pension reform that limited diversion from the pension investments for benefit enhancements and linked future pension benefit enhancements to funding levels, which could help boost future funding levels…In our view, the state's focus on structural solutions to its general fund budget challenges will be a key determinant of its future credit stability in the next two years, as will its ongoing efforts to restore the budget

stabilization fund, fund long-term pension and OPEB [Other Post-Employment Benefit] obligations, and adhere to strong debt management practices.

Finally, Moody's April 2015 report noted that: "Louisiana's retirement system is underfunded, with a reported pension funded ratio for its largest plan, LASERS, of 59.3% as of June 30, 2014…After applying Moody's adjustments, Louisiana's adjusted net pension liability (ANPL) when averaged over a 3-year period ranks 8th largest among the states…" What would make the state's credit rating go down, they further explain, is "Failure to maintain budget discipline, resulting in overspending and continued structural imbalances."

For these reasons, I have vetoed House Bill No. 42 and hereby return it to the House of Representatives.

Sincerely,

Bobby Jindal
Governor

cc: Honorable Glenn Koepp

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