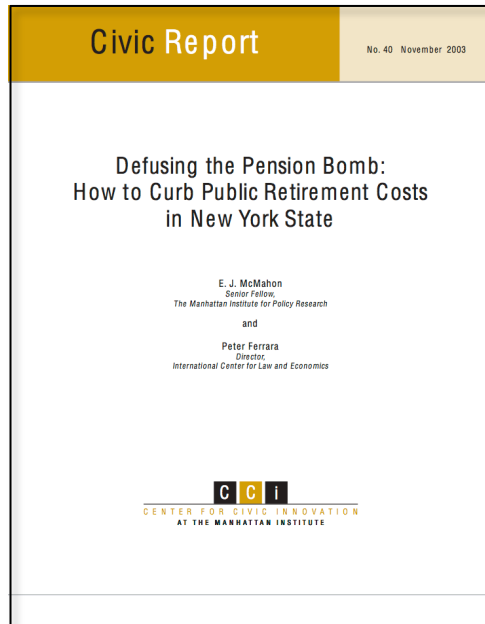


New York's Pension Explosion

EMPIRE  CENTER
FOR NEW YORK STATE POLICY

A project of the Manhattan Institute for Policy Research



“[T]his system, which contributed to a previous budgetary meltdown in the Empire State, will remain a ticking fiscal time bomb if it remains unchanged.”

—2003 Manhattan Institute report



The basics

New York State and Local Retirement System (NYSLRS)

New York State Employees' Retirement System (ERS)

- 643,875 Active Members
- 345,106 Pensioners and Beneficiaries

New York State Police and Fire Retirement System (PFRS)

- 35,342 Active Members
- 30,697 Pensioners and Beneficiaries

New York State Teachers' Retirement System (NYSTRS)

- 285,774 Active Members
- 141,716 Pensioners and Beneficiaries

New York City Retirement Systems

New York City Employees' Retirement System (NYCERS)

- 232,092 Active Members
- 133,661 Pensioners and Beneficiaries

New York City Teachers' Retirement System (NYCTRS)

- 112,472 Active Members
- 68,492 Pensioners and Beneficiaries

New York City Board of Education Retirement System (BERS)

- 22,702 Active Members
- 12,991 Pensioners and Beneficiaries

New York City Police Pension Fund (PPF)

- 34,956 Active Members
- 42,305 Pensioners and Beneficiaries

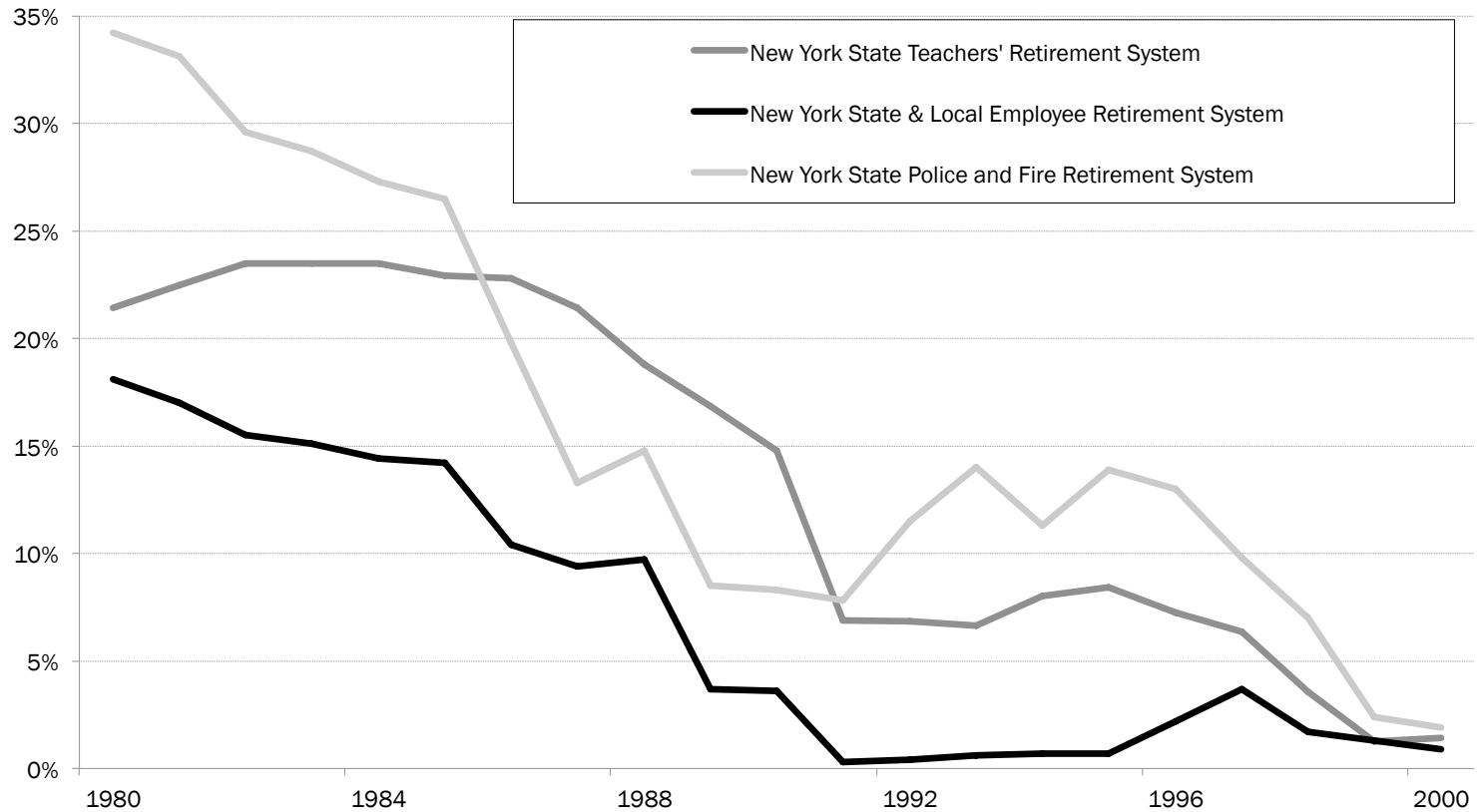
New York City Fire Pension Fund (FPF)

- 11,574 Active Members
- 17,305 Pensioners and Beneficiaries

Defined-Benefit Pensions

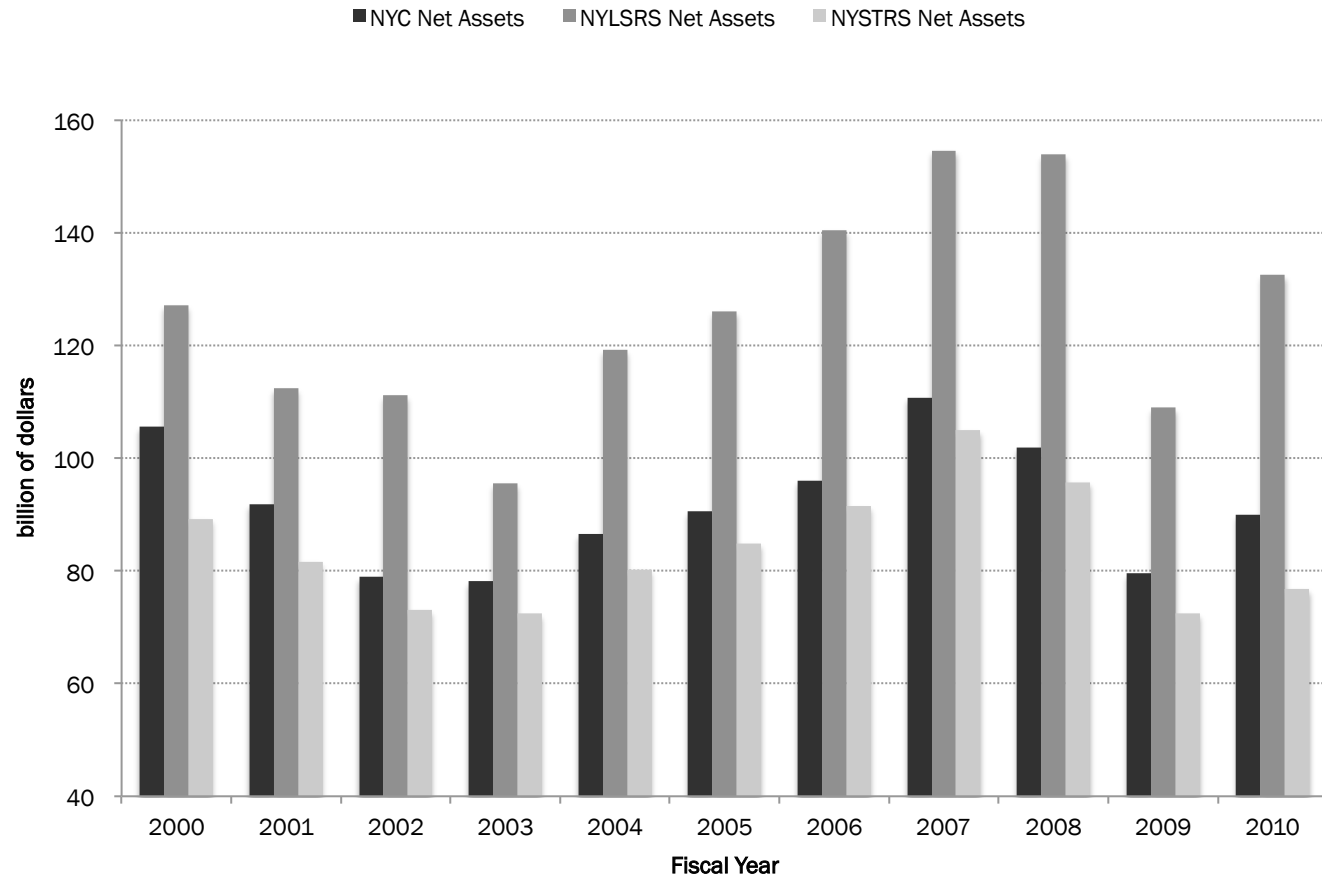
- Deliver stream of income, based on career duration, age at retirement, final average salary, occupational category
- Financed by investment returns; employer contributions; and, for most non-uniformed personnel, employee contributions
- Treated by Constitution as “contractual,” not to be “diminished” or “impaired”
- Organized into five basic “tiers” based on hiring date
- Increasingly rare among private sector workers (less than 20% have access to DB pension)
- Employee contributions fixed or capped at low rates of salary
- Employer contributions fluctuate as a percentage of payroll – taxpayers shoulder full upside and downside of investment returns

Figure 1: Employer Contribution Rates to NY State Pension Funds
Average Share of Payroll, 1980-2010

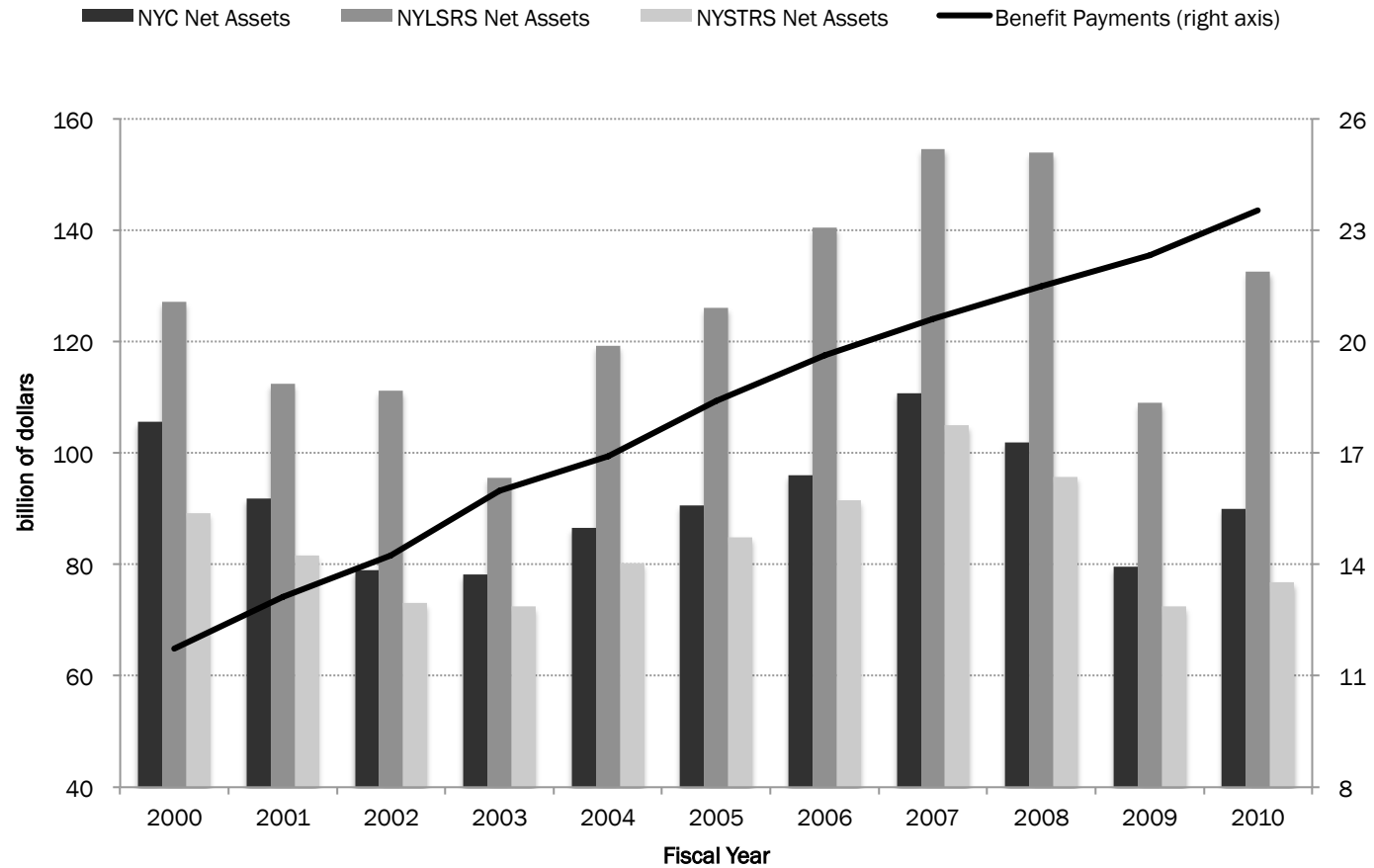


Source: New York State and Local Retirement System, New York State Teachers' Retirement System

Pension Fund Assets

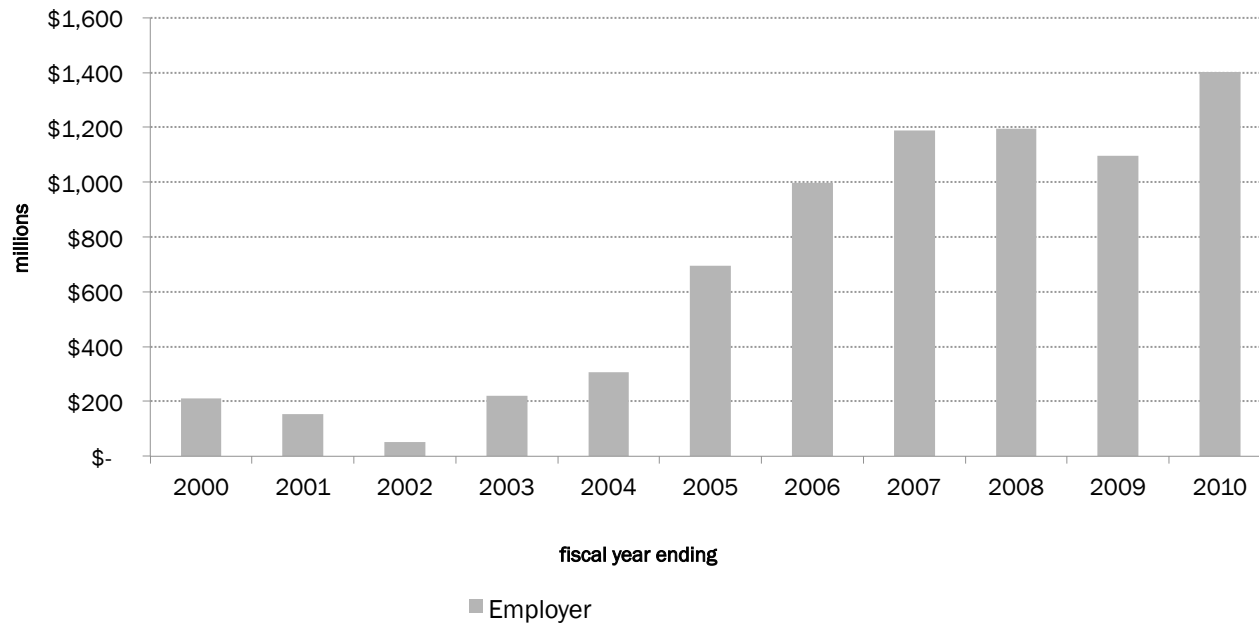


Pension Fund Assets and Benefits



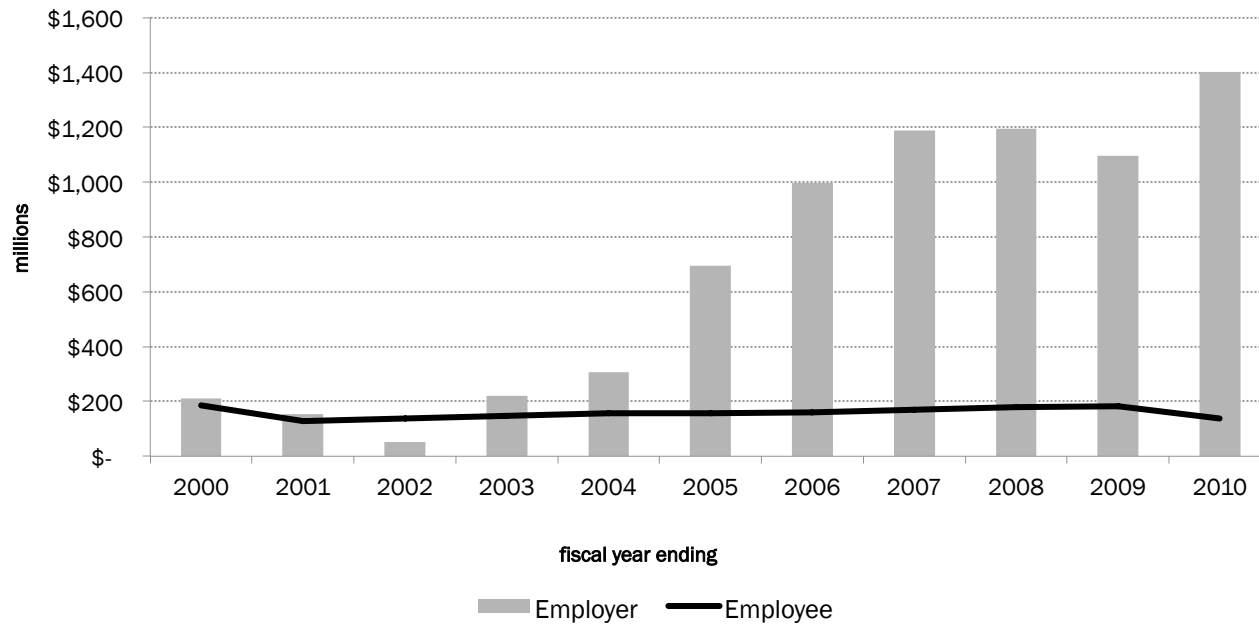
Annual Contributions to New York Public Pension Funds

New York State Teachers Retirement System



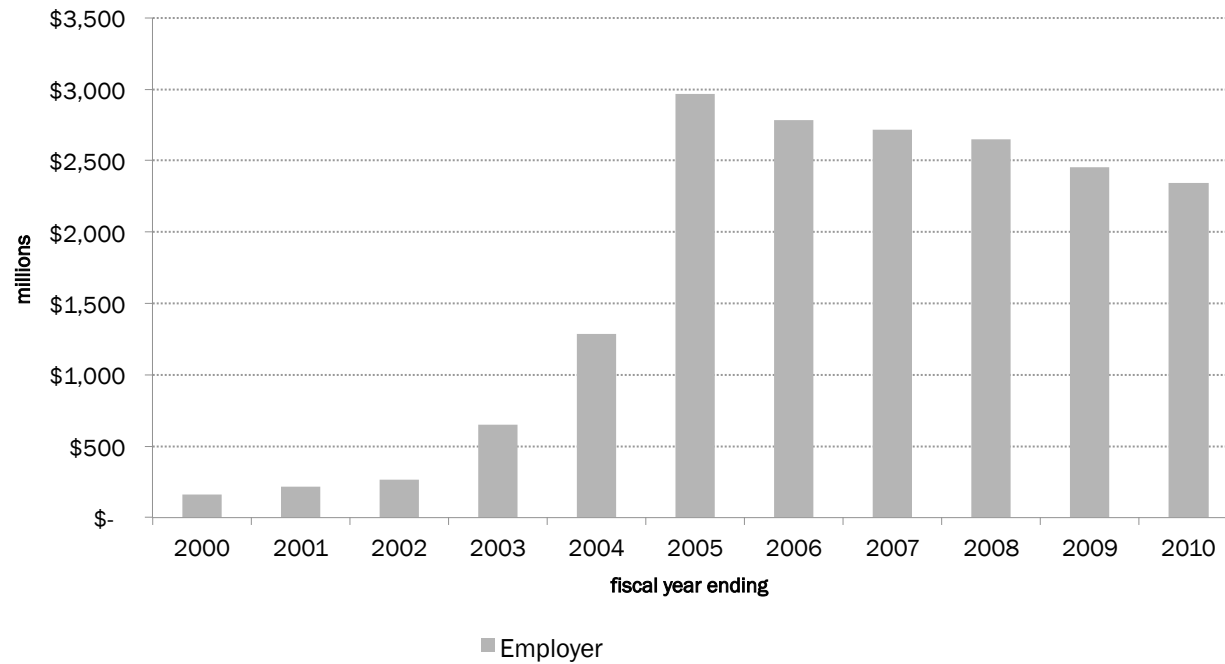
Annual Contributions to New York Public Pension Funds

New York State Teachers Retirement System



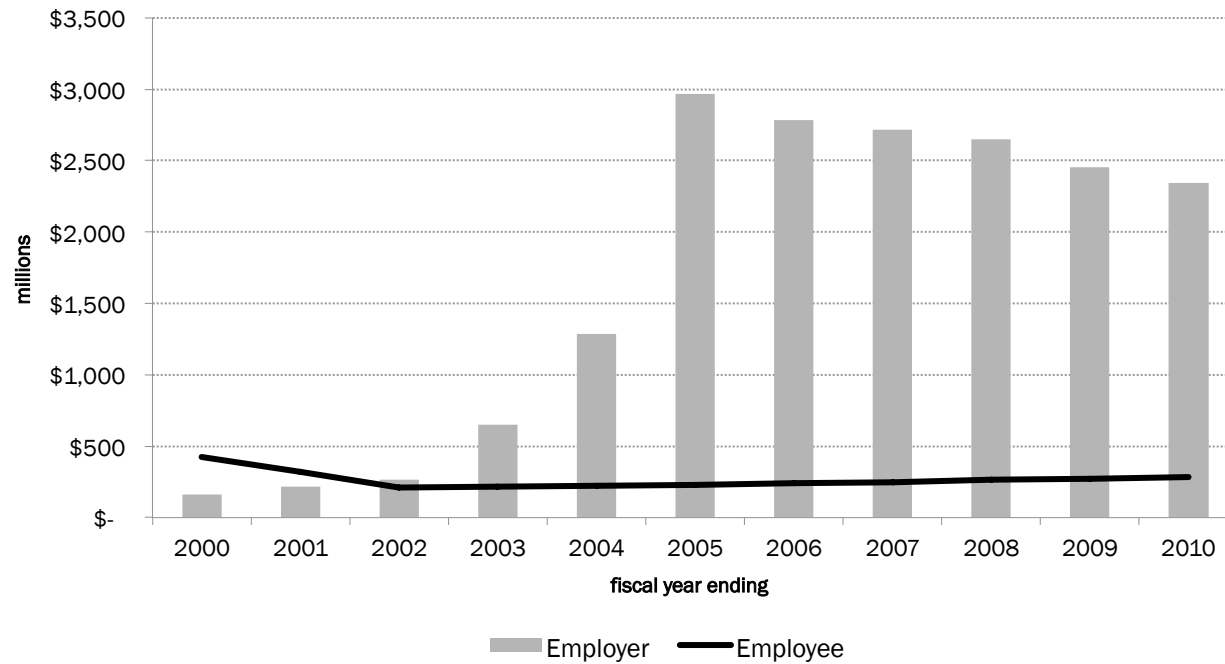
Annual Contributions to New York Public Pension Funds

New York State & Local Retirement System



Annual Contributions to New York Public Pension Funds

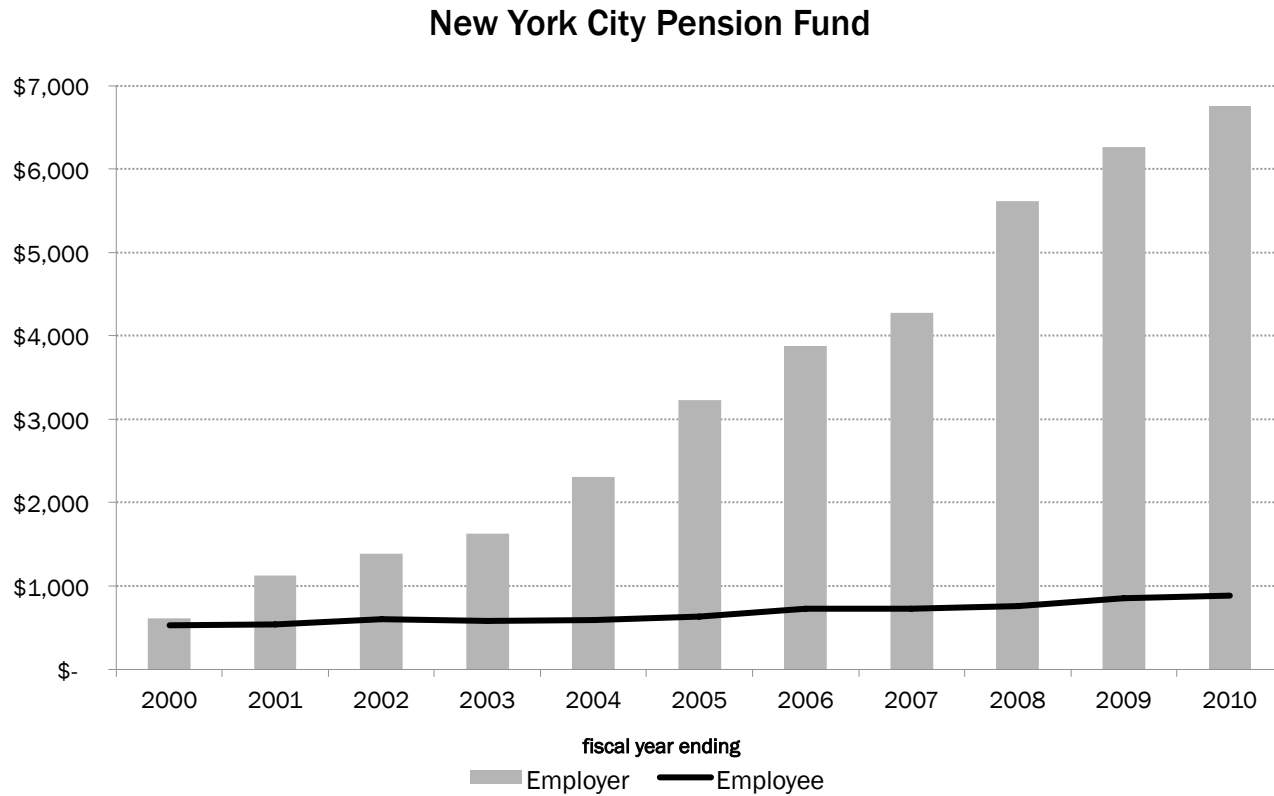
New York State & Local Retirement System



Annual Contributions to New York Public Pension Funds



Annual Contributions to New York Public Pension Funds







“Rate Mitigation” 2010-11 State Budget

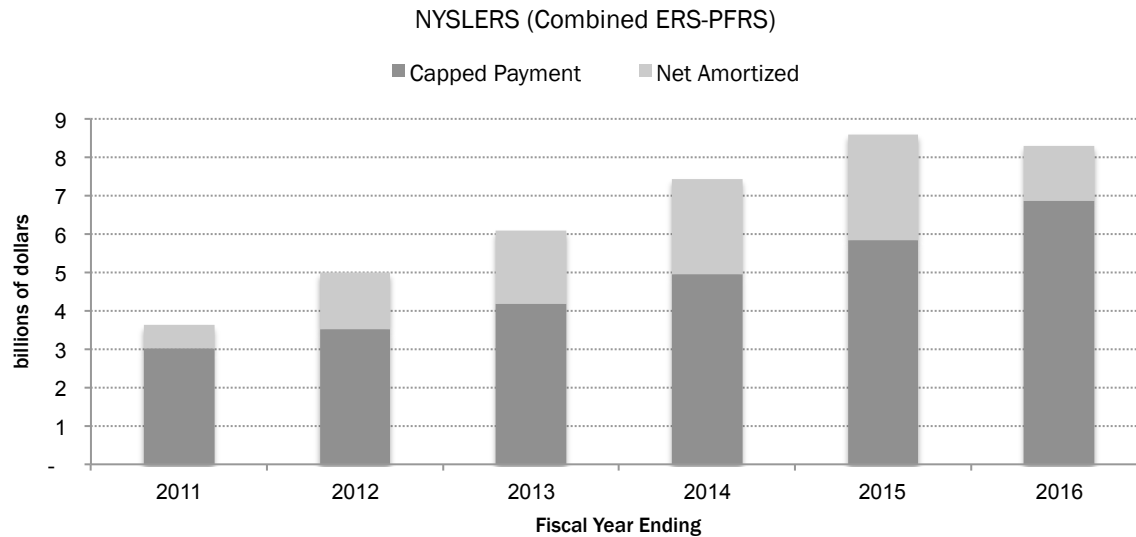
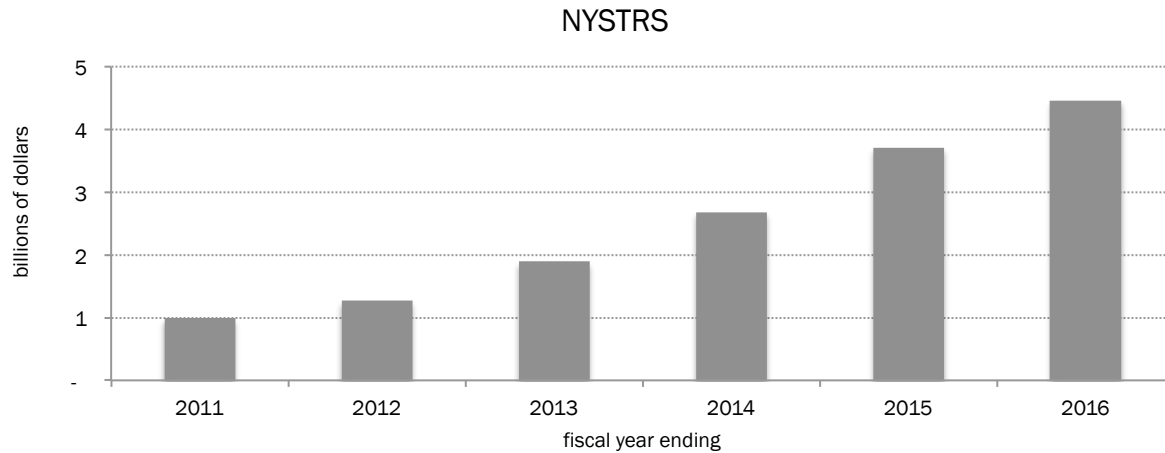
- ERS and PFRS rates capped at 9.5% and 17.5% in FY 2010-11, with future increases and decreases limited to 1% per year
- Billed amount above cap amortized over 10 years and repaid at @ 5% interest
- Local governments can opt in – but once in, no leaving
- New permanent minimum contribution rate of 4.5%

Boom

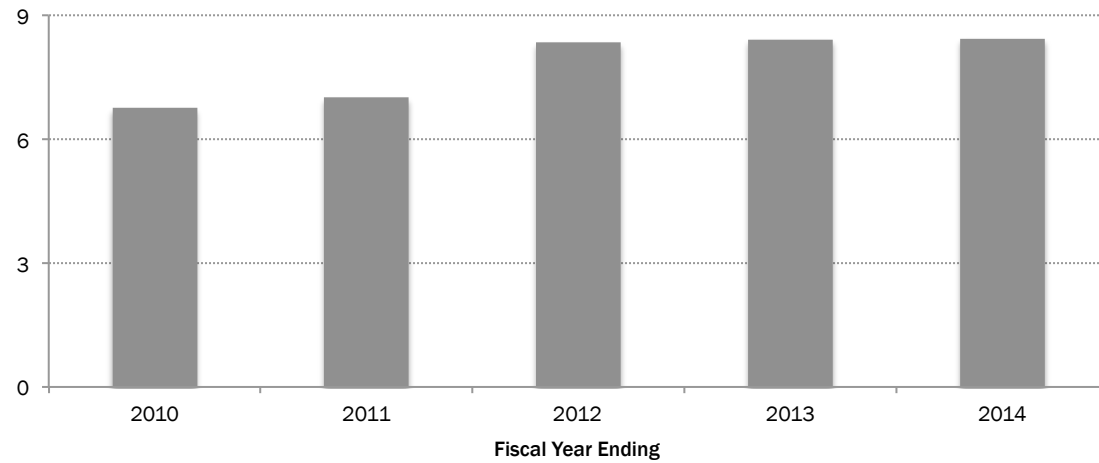
**Table 1: Projected Average Employer Contribution Rates
New York State Pension Funds**

	pension system fiscal year ending					
	2011	2012	2013	2014	2015	2016
<i>Teachers' Retirement System (TRS)</i>						
Base	6%	9%	12%	16%	22%	25%
Low Returns	6%	9%	12%	17%	23%	27%
High Returns	6%	9%	12%	16%	21%	23%
<i>Employee Retirement System (ERS)</i>						
Base	12%	16%	19%	21%	23%	20%
Low Returns	12%	16%	19%	22%	25%	24%
High Returns	12%	16%	18%	20%	20%	16%
Amortized Base	10%	11%	12%	14%	17%	19%
<i>Police and Fire Retirement System (PFRS)</i>						
Base	18%	21%	23%	26%	28%	25%
Low Returns	18%	21%	24%	27%	30%	29%
High Returns	18%	21%	23%	25%	25%	21%
Amortized Base	18%	19%	20%	21%	23%	25%
Base = 7.5% for ERS and PFRS; 8% for TRS Low Returns = 5% High Returns = 11% Amortized rate assumes Base returns and includes repayment of amortized amounts from prior years <i>Source: Authors' calculations based on pension system data</i>						

Projected Employer Contributions



New York City Pension Contributions
Actual and Projected, FY 2010-2014



Source: City of New York, Office of Management and Budget

**Table 2: Comparative Measures of Funded Status
New York Public Pension Systems, as of Latest Financial Report Dates**

	FY End	Funded Ratios (Values/Liabilities)		Unfunded Liability (\$ millions)	
		Actuarial	Market	Actuarial*	Market
New York State					
Employee Retirement System	3/31/09	101%	56%	\$(1,302)	\$74,019
Police and Fire Retirement System	3/31/09	104%	59%	\$(826)	\$12,146
Teachers' Retirement System	6/30/09	103%	60%	\$(2,744)	\$48,755
New York City Retirement Systems					
Employee Retirement System	6/30/08	80%	65%	10,392	21,416
Teachers' Retirement System	6/30/08	65%	55%	17,173	26,626
Police Pension Fund	6/30/08	71%	55%	8,833	17,314
Fire Pension Fund	6/30/08	56%	41%	5,370	9,802
Board of Education Retirement System	6/30/08	77%	66%	638	1,048

* Based on Actuarial Asset Value (AVO) and Actuarial Accrued Liability (AAL)

Source: For state funds, authors' calculations, based on data from pension funds; New York City figures from pension fund financial reports

Estimated Market-Rate Funded Status

		FY End Date	Funded Ratio	Unfunded (millions)
New York State				
	Employee Retirement System	3/31/2010	65%	\$61,800
	Police and Fire Retirement System	3/31/2010	69%	\$9,500
	Teachers' Retirement System	6/30/2010	61%	\$49,200

Needed:

**Fundamental Pension
Reform in New York**

Reform Goals:

- Affordability and predictability for taxpayers
- Retirement security and flexibility for employees
- Minimal opportunities for distortions and gaming

Options:

- **Defined-Contribution Models**
 - Michigan state plan (Employer: 4-7%, including match)
 - SUNY-CUNY plan (Employer: 8%-10%)
 - Guidelines: “automatic enrollment, matching employer contributions, low fees, good investment choices, sensible default allocations, and reasonably priced offers for annuities at retirement.” (Rauh and Novy-Marx)
- **Hybrid DB-DC**
 - Federal model (DB = 1% per year + Thrift Savings Plan)
 - Utah model (choice of DC or hybrid; employer capped at 10%)

Tier 5: “Landmark Reform” ... *Not*

Back to the Future Comparison of Current and Original Tier 4 and Tier 5 Benefits For Employee Retirement System Members			
	<i>Current Tier 4</i>	<i>Tier 5</i>	<i>Original Tier 4</i>
Minimum retirement age with unreduced benefits	55 after 30 yrs	62	62
Employee contribution	3% for 10 years	3% a year for all years	3% a year for all years
Vesting period	5 years	10 years	10 years
Multipliers*	0-20 yrs: 1.67%	0-25 yrs: 1.67%	0-25 yrs: 1.67%
	20-30 yrs: 2%	25-30 yrs: 2%	25-30 yrs: 2%
	>30 yrs: 1.5%	>30 yrs: 1.5%	>30 yrs: 1.5%
Overtime in final average salary base	Yes, no restrictions	Yes, subject to \$15,000 cap indexed to grow 3% a year.	Yes, no restrictions


Transparency Reforms


- “True North” alternative measures of funded status, using private-sector market-rate standards
- Calculate statistical likelihood of meeting rate of return targets
- Post financial results promptly on Internet
- Calculate and publish projected benefit cash flows

What's a public pension *worth*?

Your Target Retirement Age

Years Worked at Retirement

Final Average Salary 

Gender (to calculate annuity) 

☒ Hired before 1/1/2010


☐ Teacher hired after 1/1/2010

☐ Other government worker hired after 1/1/2010

Your Pension Benefit at Time of Retirement


Monthly:

Annual:

Amount of Cash You Would Need to Have at the Same Retirement Age to Purchase a Guaranteed Lifetime Annuity Yielding the Same Income as the Pension 

Your Target Retirement Age

Years Worked at Retirement

Final Average Salary 

Gender (to calculate annuity)


- ☒ Hired before 1/1/2010
- ☐ Teacher hired after 1/1/2010
- ☐ Other government worker hired after 1/1/2010

Calculate

Your Pension Benefit at Time of Retirement

Monthly: \$5,581

Annual: \$66,975

**Amount of Cash You Would Need to Have
at the Same Retirement Age to Purchase a
Guaranteed Lifetime Annuity Yielding the
Same Income as the Pension** 

\$1,325,521

