Public employee pensions in New York state

New York state's school district employees outside of New York City generally belong to one of two public pension systems – the New York State Teachers' Retirement System (TRS) and the New York State Employee Retirement System (ERS).

The pension benefit that individual retirees receive depend on various factors, including: which system they are in; their salary; the date employment began; years of service; and age at retirement.

Pension systems have three sources of revenue: employee contributions, employer contributions (those from state and local government and school districts), and the investment returns on these contributions.

Employee contributions are based on the date employment began. Employees hired before July 1976 were not required to contribute. Those hired since then have had to contribute 3% of their salaries for at least a portion of their careers; and new employees will contribute 3% or more for the duration of employment.

How are the contributions of state and local governments and school districts determined?

Employer contributions are determined according to an accounting model that takes into account the future liabilities (pension payouts) of the system and the value of the fund. The state sets employer contribution levels each year in order to ensure that the systems are fully funded in relation to future obligations.

New York is one of a handful of states that entered the current economic downturn with a fully funded pension system, according to a 2010 study from The Pew Center on the States. Many states have funded their pension systems at levels far lower than their future obligations require, and some have skipped payments altogether—but not New York.

NEW YORK PUBLIC EMPLOYEE PENSION SYSTEMS BY THE NUMBERS...

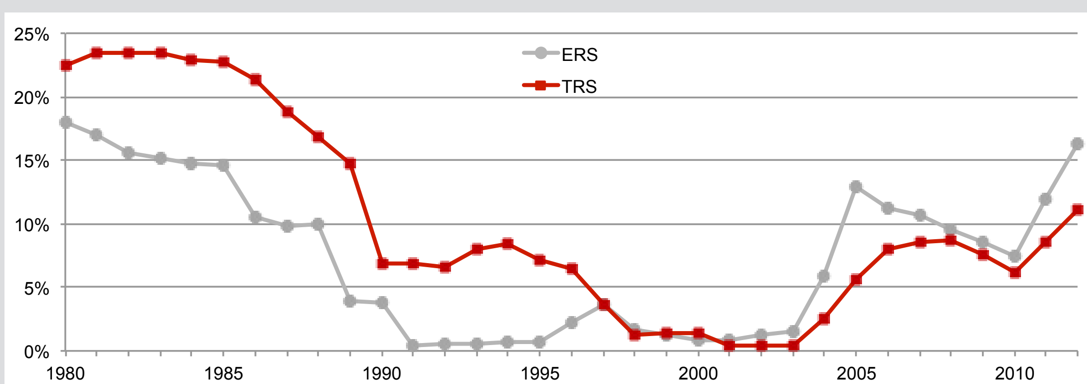
ERS	TRS
672,723 Active members	**280,435** Active members
385,031 Retirees & beneficiaries	**146,843** Retirees & beneficiaries
$19,151 Average retiree pension	**$38,238** Average retiree pension
$30,000 or less Annual pension benefit for 76% of retirees	**$50,000 or less** Annual pension benefit for 69% of retirees
Less than 0.5 percent Retirees receiving annual benefit of $100,000 or more	**1.7 percent** Retirees receiving annual benefit of $100,000 or more
82 percent Portion of fund revenue from investment income	**87 percent** Portion of fund revenue from investment income

Sources: NYS Teachers' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011; New York State and Local Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended March 31, 2011.

Market conditions are a major factor in determining pension costs

The contribution rates of the state pension systems are set annually by accounting for the value of the funds in relation to future obligations. Therefore, as markets fluctuate—and cause the value of the ERS and TRS investments to change—so do the rates of employer contributions to the systems. Thus, the economic slowdown of recent years has been a major driver of the increases in pension costs to school districts and other governments in New York state.

ANNUAL EMPLOYER CONTRIBUTION RATES



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Pension reform: A tale of tiers

Over time, lawmakers have passed legislation to reduce the cost of pensions to state and local governments and school districts. The avenue they have used to do this is to create additional "tiers"—levels of membership that carry different benefits and requirements. After the passage of Tier 5 in 2009, calls for pension reform persisted, and a new Tier 6 was enacted this year.

Gov. Cuomo has said that the recently enacted pension reform will save the state more than $80 billion over the next 30 years. However, according to the NYS Comptroller's Office, the creation of Tier 6 will not significantly lower pension costs for schools in the immediate future to prevent the kinds of program cuts many districts face in the next few years.

This is because the new pension tier applies only to new employees hired after April 1, 2012. With school districts struggling to balance their budgets in this difficult economy, most are laying off staff rather than hiring new employees who would fall into the new tier.

TIER 1 & 2
Hired before July 27, 1976

- Retirement age for full benefits: 55 (Tier 1); 62 (Tier 2)
- Annual benefit at 30 years of service: 60% of final average salary
- Employee contribution: None

TIER 3 & 4
Hired on or after July 27, 1976

- Retirement age for full benefits: 62
- Annual benefit at 30 years of service: 60% of final average salary
- Employee contribution: 3% for at least the first 10 years of employment

TIER 5
Hired on or after January 1, 2010

- Retirement age for full benefits: 62
- Annual benefit at 30 years of service: 60% of final average salary
- Employee contribution: 3% (ERS) or 3.5% (TRS) for length of employment

TIER 6
Hired after April 1, 2012

- Retirement age for full benefits: 63
- Annual benefit at 30 years of service: 55% of final average salary
- Employee contribution: 3% to 6%, depending on salary, for length of employment

Clarifying the pension exclusion in New York's new tax levy "cap"

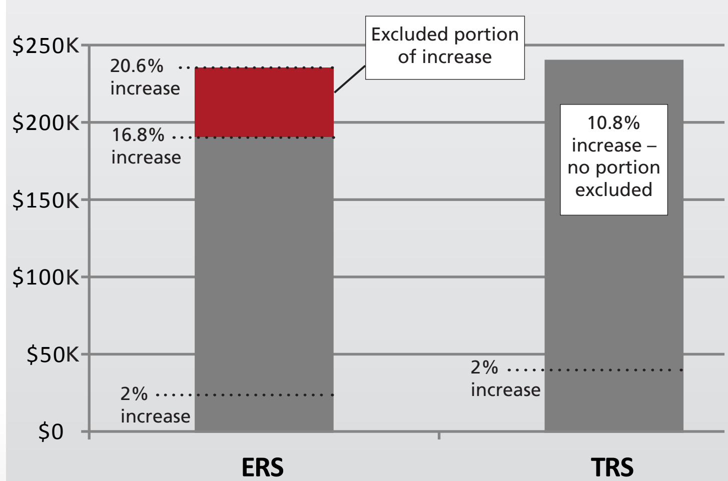
The pension exclusion in the state's property tax levy cap has been widely misunderstood as excluding from a district's tax levy limit any year-to-year pension cost increase greater than 2 percent. This is not the case. In fact, the legislation excludes only those pension costs attributable to an increase in the state-mandated employer contribution rates that exceeds 2 ***percentage points***.

There can be a signficant difference between "percent" increase and "percentage point" increase, as illustrated to the right for both ERS and TRS. The bullets below offer a detailed explanation for the ERS contribution and exclusion amount as it relates to 2012-13 for a sample district:

- The ERS contribution rate is increasing from 16.3 percent in the current year to 18.9 percent next year. So, the rate is going up by 2.6 percentage points—which is actually a rate increase of 15.95 percent (the difference of 2.6 divided by the base-year rate of 16.3%).
- The rate increase exceeds 2 percentage points. Therefore, the costs attributable to 0.6 of the 2.6 percentage-point increase are excluded from a district's tax levy limit.
- The result is that $43,680 can be excluded—a small portion of the district's total contribution of nearly $1.4 million and the year-to-year increase of $234,920.
- As the bar graph (right) shows, the year-to-year cost increase is 20.6 percent, and the district can exclude only the amount that exceeds a 16.8 percent increase—*not* the amount exceeding a 2 percent increase.

PENSION COSTS AND EXCLUSION AMOUNTS FOR A SAMPLE DISTRICT

	ERS Support employees	TRS Teachers/principals/directors
Contribution rate change	2011-12 to 2012-13 16.3% to 18.9%	2011-12 to 2012-13 11.11% to 11.84% (est.)
Increase in percentage points	2.6 percentage pts.	0.73 percentage pts.
Excludable portion	0.6 percentage pts.	none
Total contribution ('11-'12)	$1,141,000	$2,462,720
Total contribution ('12-'13)	$1,375,920	$2,222,000
Net contribution increase	$234,920	$240,720
Increase excluded from "cap" (0.6 percentage points)	$43,680	$0



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This publication was developed cooperatively by the Capital Region BOCES Communications Service and Questar III's State Aid Planning and Communication Services. For more information on New York's property tax levy cap, visit *www.capitalregionboces.org/taxlevycap* and *www.questar.org/taxcap*. Published April 2012.

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