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 benefits 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 (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 have not been required to contribute. Those hired since then have had to contribute at least 3 percent of their salaries for a portion of their careers; with newer employees contributing 3 percent or more for the duration of employment.

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

Employer contributions for both systems are determined based upon future liabilities (pension payments) and the value of the funds. These rates are set annually to ensure that both systems are essentially fully funded in relation to future obligations. In essence, the pension costs of state and local governments are calculated after accounting for employee contributions and the performance of the fund's investments. Therefore, as economic conditions fluctuate, so too do the actuarially determinted rates paid by government employers – those that most directly impact taxpayers.

New York has earned high marks for its commitment to funding its state pension systems. The majority of retiree benefits are funded by investment income. Yet, when the economy is slow, government employers – taxpayers – must make up the difference to maintain the state's commitment to a fully funded system. This has helped force difficult budget decisions in New York's school districts in recent years.

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

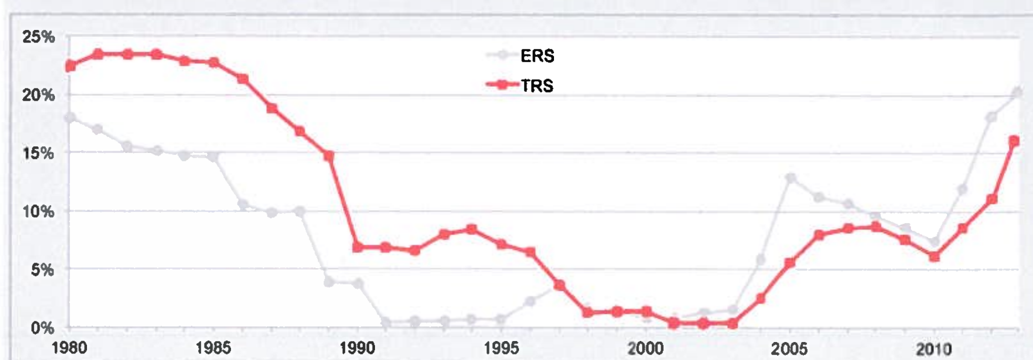
ERS	TRS
622,107 Active members	**277,273** Active members
371,468 Retirees & beneficiaries	**149,812** Retirees & beneficiaries
$20,241 Average pension benefit	**$38,985** Average pension benefit
60.9 percent Portion of fund revenue from investment income, 2012	**57.3 percent** Portion of fund revenue from investment income, 2012
5.47 percent 25-year average of employee contribution rates	**6.11 percent** 25-year average of employee contribution rates

Sources include NYS Teachers' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012; New York State and Local Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended March 31, 2012.

School district participation in the pension systems – and annual contributions – are required by New York State.

Participation in both the Teachers' Retirement System and Employee Retirement System is not negotiated between a school district and its employees. The required contribution rates for all state and local government employers are set by each system annually. The rates represent a percentage of an employee's salary that districts are required to contribute to the system in which they are members.

ANNUAL EMPLOYER CONTRIBUTION RATES



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Pursuing pension savings: A tale of tiers *and new options for 2013-14*

Over time, lawmakers have reduced pension costs for state and local governments and school districts by creating new "tiers" or levels of membership that carry different benefits and contribution requirements. The most recently passed was Tier 6, which offers more limited benefits than in the initial Tier 1:

- **Tier 1 (hired before July 1976):** The retirement age for full benefits is 55. With 30 years of service, a retirees' pension is based on 60 percent of final average salary. Tier 1 members have never been required to contribute a portion of their salaries toward the system.
- **Tier 6 (hired after April 2012):** The retirement age for full benefits is 63. With 30 years of service, the retirees' pension is based on 55 percent of final average salary. Tier 6 members contribute between 3 percent and 6 percent of their salaries for their entire careers.

Because new pension tiers apply only to employees hired after the new tiers go into effect—and do not affect existing workers—the bulk of the savings that result from the new tiers will not be realized for some time. Additionally, with school districts struggling to balance their budgets in this difficult economy, most are reducing staffing levels rather than hiring new employees who would fall into the new tier.

Final 2013-14 state budget includes *options* for stable rates in the near term

The enacted 2013-14 state budget includes provisions that would allow school districts to choose to defer some of their pension costs in the near term through stable contribution rates. The new, optional TRS program would provide districts predictable rates over a period of seven years. The ERS option builds upon an existing pension contribution amortization program. While these programs are separate and distinct for each system, the premise of each plan is similar: School districts can achieve short-term pension savings, beginning with the 2013-14 school year, by financing the difference between a fixed rate and the regular, actuarially determined rate. Districts that participate will be required to repay any deferred contributions, plus interest. The goal of the programs is to provide schools a potential bridge to either the future savings from new pension tiers or to a period when the required contribution rates are lower than their current levels.

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

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

There can be a significant difference between "percent" increase and "percentage point" increase. This is illustrated in the table to the right, and in more detail for TRS in the bullets below:

A district's pension costs are calculated by applying the contribution rates, as a percentage, to employee salaries.

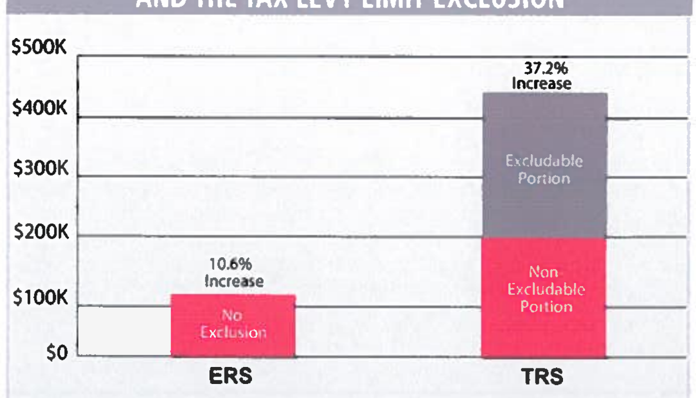
Regardless of how much is excluded from the tax levy "cap" calculation, districts still must pay the expense of the full contributions.

- The TRS contribution rate is increasing from 11.84 percent of total salaries in the current year to an estimated 16.25 percent next year. So, the rate is going up by 4.41 percentage points—which is actually a rate increase of 37.25 percent.
- Because the rate increase of 4.41 percentage points exceeds 2 percentage points, there will be an exclusion for TRS costs for 2013-14.
- The amount that can be excluded is $241,000, which is just more than half of the district's increase in TRS costs of $441,000, and a fraction of the district's overall required contribution toward the system.

PENSION COSTS AND EXCLUSION AMOUNTS FOR A SAMPLE DISTRICT

This sample district has a $5 million payroll for ERS members and a $10 million payroll for TRS members.*	**ERS** Support employees	**TRS** Teachers and principals
Contribution rate change	2012-13 to 2013-14 18.9% to 20.9%	2012-13 to 2013-14 11.84% to 16.25% (est.)
Increase in percentage points	2.0 percentage pts.	4.41 percentage pts.
Excludable portion	None	2.41 percentage pts.
Total contribution (2011-2012)	$945,000	$1,184,000
Total contribution (2012-2013)	$1,045,000	$1,625,000
Contribution increase	$100,000 (+10.6%)	$441,000(+37.2%)
Increase excluded from "cap"	$0	$241,000 (*$10 million x 2.41%)

A CLOSER LOOK AT PENSION INCREASES AND THE TAX LEVY LIMIT EXCLUSION



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