The Truth about the New York City Employees’ Retirement System

In 1920 the New York State legislature created the New York City Employees’ Retirement System (NYCERS), which began with 13,331 members. Today NYCERS covers more than 300,000 active and retired members – making it the largest municipal public employee retiree system in the world.

NYCERS members work for the city, transit authority, health and hospitals, and housing authority, along with many other employers – in fields like accounting, corrections, clerical, social work, and sanitation. As of June 30, 2009, the average service retirement pension for 132,523 retirees and beneficiaries was $23,352, while AFSCME DC 37 members’ pensions averaged $17,166.

There have been some recent claims that retirement systems like NYCERS are facing a financial crisis. These claims are rarely true, and they are not true of NYCERS. The Fiscal Year (FY) 2009 Comprehensive Annual Financial Report (CAFR) notes that the plan held assets with an actuarial value of $38.9 billion, which are dedicated to $39.0 billion in liabilities as of June 30, 2007 (These are the most recent figures in the 2009 CAFR due to a reporting lag) – meaning the plan was 99.9 percent funded before the recession began.

Benefit Levels and Eligibility

An employee becomes “vested” or has the right, after satisfying a minimum service requirement, to ultimately receive a pension benefit regardless of whether the employee remains a member of the pension plan, after five years. According to the Wisconsin Legislative Council’s 2008 Comparative Study of Major Public Employee Retirement Systems, nearly three-quarters of the public plans surveyed require five or fewer years of service to vest. Private sector plans typically provide
vesting after five years.

Employees can typically retire at age 62 with 5 years of service. An unreduced retirement is also available for members who attain age 55 and 25 years of service, but eligibility for this provision requires additional employee contributions to offset the additional cost of receiving the benefit earlier. Members typically contribute 3 percent of pay for the first 10 years of employment towards their pension costs – in addition to the payroll taxes that workers pay towards Social Security and Medicare. Other pension provisions apply to jobs that are physically demanding, and separate plans also exist for specific groups of employees such as dispatchers and sanitation workers.

For the 4,091 retirees who began receiving benefits from NYCERS in 2008, the average annual benefit was $33,194 (FY 2009 CAFR, p. 183), which was equal to 50 percent of their final average salary. As part of the formula used in calculating benefits, plans like NYCERS use a service credit multiplier. For most employees, NYCERS uses a service credit multiplier of:

- 1.67%, if credited service is less than 20 years,
- 2.00%, if credited service is more than 20 years and less than 30 years, and
- 2.00% for first 30 years, plus 1.5% for each year exceeding 30.

For example, the benefit for a hypothetical NYCERS participant with a final average salary of $40,000 would be calculated in the following manner:

If retiring with 15 years of service:

\[ $40,000 \times 15 \text{ years of service} \times \text{service credit multiplier of 1.67\%} = $10,020 \]

If retiring with 25 years of service:

\[ $40,000 \times 25 \text{ years of service} \times \text{service credit multiplier of 2.00\%} = $20,000 \]

If retiring with 35 years of service:

\[ $40,000 \times (30 \text{ years of service} \times \text{service credit multiplier of 2.00\%}, \]

\[ \text{plus 5 years of service} \times \text{service credit multiplier of 1.5\%}) = $27,000 \]

Because an employee’s benefit can be calculated using a formula based on a percentage of final average pay and years of service, employers can efficiently manage the workforce. For example, 401(k) plan participants may invest too little, or their investments may provide insufficient returns, thus preventing employees from retiring and causing some employees to remain on the job even
when their ability to perform job duties is declining. This can complicate the employer’s role, forcing decisions with unpleasant consequences for everyone. The flexibility afforded by the NYCERS pension plan was utilized by the city during the current economic downturn, when an early retirement program was used to reduce the number of employees in targeted areas of city government.

**Funding Sources**

Revenues used to pay benefits come from three sources: employee contributions, employer contributions, and returns on investments. NYCERS, like all healthy public pension plans, receives the bulk of its revenues in the form of investment returns.

From the last recession through FY 2009, 50 percent of plan revenues came from investment returns. Employer contributions made up 38 percent of plan revenues, while the other 12 percent was from employee contributions. The 50 percent figure is a lower share of total revenues than would be typical due to the enormous investment losses during the recent market turmoil.

**NYCERS is Financially Sound**

There have been some recent claims that public employee retirement systems across the country are facing a financial crisis. These claims are rarely true, and they are not true of NYCERS. It should come as no surprise that the 2008 and 2009 market downturn adversely impacted all investors. What is surprising is that some individuals fail to account for the fact that defined benefit plan funding is structured to be carried out indefinitely. NYCERS is designed for the long haul and does not have an investment horizon like defined contribution savings plans that cover individual employees.

As of June 30, 2008 NYCERS held net assets of more than $40.7 billion. Based on the actuarial value of those assets, at that time NYCERS had a funded ratio of 100 percent. The fact that the latest figures available online was for 2008 clouds this view somewhat, however we expect that more recent information will be available in the near future.
According to a recent survey by the Center for State and Local Government Excellence the national average for large public sector plans was 78 percent as of June 30, 2009; most experts recommend a pension plan maintain a funding ratio of 80 percent or higher. A plan’s funding ratio is simply a comparison of assets to accrued pension obligations. A retirement system’s liabilities are amortized over time – similar to paying off a mortgage. And, if investment results bounce back from the recent sharp decline – that will help payoff the unfunded obligations. In other words, a plan’s funding status is a snapshot that captures a government's ongoing effort at one point in time to fund its future pension liability. If a state is consistently making its annual required contribution, its pension plan can have a funded ratio below 100 percent yet still be on track toward full actuarial funding.

A recent National Association of State Retirement Administrators report points out that New York governments spent just 3.96 percent of their budgets on pension contributions in FY 2008. (Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, National Association of State Retirement Administrators, January 2011). Due to the recent investment losses, contributions are expected to increase to up to 5 percent nationally.

Defined benefit plans like NYCERS have access to professional investment managers who are trained in developing ongoing, long-term investment strategies that include an optimum mix of growth potential and risk. Participants and taxpayers benefit from the favorable investment performance of pooled pension fund assets. The wide range of investment options open to large pension plans, such as foreign and domestic stocks and bonds, real estate, and venture capital, also improve investment returns. Furthermore, NYCERS’ investments are not affected by the retirement timing of a particular employee so the investment horizon never has to be shortened – which prevents the need to move to an extremely conservative investment portfolio when an employee reaches retirement.

Current funding of DB plans actually reduces long-term costs over time through the compounding of contributions and interest earnings. To a large extent, investment returns dictate the level of contributions needed to keep pension plans funded at healthy levels because those returns provide about two-thirds of plan revenues which provide retirement benefits. Actuarial projections assume that over the long-term, NYCERS will earn eight percent each year on its investments. In
some years returns will be below that rate and in others returns will exceed it. Over the most recent 5 years for which data is available, NYCERS has fallen short of its eight percent target, with an average annual return of 2.01 percent from July 1, 2004 through June 30, 2009 (FY 2009 CAFR, p. 120). This includes disappointing investment returns in 2009 which resulted in a loss of 18.18 percent, though the CAFR notes that: “As of September 30, 2009 the end of the first quarter of fiscal year 2010, the positive trend had continued with a quarterly return of 12.13 percent.”

When returns are strong and above the actuarial assumed rate, the employer’s level of contributions will generally be lower than expected. When returns are less than projected, those actuarial losses are amortized through increased employer contributions, which is one reason why contributions needed from the employer will increase over the levels needed earlier in the decade.

Plan investments not only help keep costs down for plan sponsors, but are also a critical part of the economic fabric of the state. According to the National Institute on Retirement Security, each dollar in taxpayer contributions to the NYCERS pension plan supports $9.61 in long-term economic activity in the state. Retiree expenditures stemming from state and local pension plan benefits support nearly 137,000 jobs in New York. These figures reflect the fact that taxpayer contributions are, in the long run, a highly efficient source of financing for retirement benefits that ultimately provide income and jobs for others (Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, National Institute on Retirement Security, February 2009).

AFSCME believes in a society of opportunity where all workers not only earn a living wage, but can afford to see a doctor when they are sick. AFSCME believes we all should have the opportunity to reach our full potential in our chosen careers and to retire with dignity when our work is done. For decades, NYCERS has provided workers and their beneficiaries with secure retirement benefits. There is no reason to believe it will not continue to be able to do so.