

Downgrade in Assumed Pension Earnings Not Adding to Budget Hole

By RICHARD STEIER | Posted: Monday, December 19, 2011 5:00 pm

An artful reworking of the complicated system for calculating the assumed earnings rate for the five city pension systems will prevent carving a deeper hole in the city budget even though the record 1-point reduction had been initially projected to require as much as \$2 billion more in city contributions.

Chief City Actuary Robert C. North last week presented his recommendations to the trustees of the five systems, which are expected to be finalized by early February and could be adopted later that month.

The city budget had allowed for a half-point reduction—costing \$1 billion—in the assumed earnings rate, which is currently at 8 percent, and a mayoral spokesman said last month that each quarter point below the projected 7.5 percent would require added city contributions to the pension systems of between \$350 million and \$500 million.

Biggest Cut in Funds' History

But Mr. North said in a Dec. 19 interview, “The currently proposed package of actuarial assumptions and methods would result in city contributions of no more than those shown in the Fiscal 2012 adopted budget.” Changes in other actuarial assumptions reduced a good portion of the extra burden placed on the city by the reduced earnings rate, which requires greater contributions to assure a steady flow of benefits to retirees.

The full-point takedown if enacted would be the largest reduction in the history of the pension systems. There were two larger upgrades in earnings assumptions: 1.5 percent in 1977 following recalculations by a special commission on pensions, and 2 percent in 1980 as a consequence of the city adopting Generally Accepted Accounting Principles as one of the preventive steps it took in response to the fiscal crisis a few years earlier.

‘Not a Dramatic Hit’

The downgrade will actually reduce earnings assumptions by .8 percent, rather than a full point, because of a change in accounting methods. Until now, the projection factored in the recoupment of certain expenses and the actual net rate of return was 7.8 percent, not 8 percent. Under the change, the reduced 7-percent rate is based on the net rather than the gross of expenses.

Mr. North briefed trustees of the five systems—the New York City Employees’ Retirement System, the Teachers Retirement System, the Board of Education Retirement System, the Police Pension Fund, and the Fire Pension Fund—in separate meetings last week. Mayoral spokesman Marc

LaVorgna declined comment, as did several union trustees.

But Teamsters Local 237 President Greg Floyd, one of the three union trustees on the NYCERS board, acknowledged it would be “a significant change” but insisted it would not mean “a really dramatic increase” in the city’s pension costs. The prime concern from the unions’ standpoint is that any additional money the city must place in the systems reduces the amount available for everything from maintaining services to funding possible wage increases.

Mr. Floyd, who has been one of the most vocal critics of a plan advanced by the Mayor and City Comptroller John C. Liu that would create an independent investment board for the five systems in the hope of substantially improving their earnings, said he saw no basis for quarreling with Mr. North’s recommendations.

Larry Cary, the alternate trustee for Transport Workers Union Local 1100 at the NYCERS board, called it “a very thoughtful proposal in terms of the interest rate and the adjustments.”

He noted that the Metropolitan Transportation Authority had also budgeted based on a 7.5-percent earnings assumption, but contended that based on Mr. North’s description of the various changes, his reduction by another half-point was “not a budget-buster” at a time when Local 100 is negotiating a new contract.

Mr. North’s report concerning NYCERS, which one union official provided to this newspaper, maintains his office’s long-term projections that the inflation rate will rise by 2.5 percent annually and wages will increase by 3 percent, notwithstanding a wage freeze that Governor Cuomo has succeeded in gaining from the two largest state-employee unions and Mayor Bloomberg’s insistence that any pay hike for city workers will have to be offset by union-generated savings.

Living Longer Has Its Price

In addition to years of faltering performance by the five systems’ stock investments until a robust comeback in the fiscal year that ended July 1, the report cited two other factors that help account for the additional city contributions. The big one is “increased longevity for retirees,” reflecting the general trend of city residents living longer. He also anticipates some increase in accidental-disability retirements for NYCERS members who are eligible for World Trade Center-related disability pensions. Although the bulk of the NYCERS membership is comprised by civilian employees, there are also several dozen correction officers, transit employees and sanitation workers who are system members who were involved in the recovery operations at the Trade Center site and the Fresh Kills landfill where the debris from that site was unloaded.

Twenty-one years ago, Mr. North had raised earnings assumptions from 8.25 percent to 9 percent for NYCERS, TRS, and BERS, while upgrading the assumptions for the police and fire systems by just a quarter-point to 8.5 percent because of their obligation to funnel a portion of their profits from stock earnings into the Variable Supplement Funds for members of those systems. Five years later,

the assumed rate for the systems was dropped by a quarter-point.

In fiscal year 2000, the assumed rate was lowered to 8 percent for all of them, even though stock profits had produced such strong earnings over a five-year period that both the city and state were able to sharply reduce their pension-fund contributions under legislation that also improved benefits for system members. There were two rationales given for what seemed to be a counterintuitive downgrade at a time when earnings were so high: that the stock market couldn't go any higher and so future earnings figured to drop, and that the systems were in such good shape that the lowered estimate would not be accompanied by a need for greater employer contributions.