Don’t Need New Benefit Cuts

# Liu: City Pension Costs Already Leveling Off

Posted: Monday, April 18, 2011 5:00 pm | Updated: 1:08 pm, Mon Apr 18, 2011.

By DAVID SIMS |

Pension changes already enacted locally should stabilize the city’s retirement funds without any further action, City Comptroller John C. Liu’s April 6 report on public-employee pensions states, concluding that most of the blame for rising costs stemmed from instability on Wall Street.

The report made some waves by finding that lower investment returns rather than employee-related costs were the biggest cause of the city’s increased contributions to the five funds. Mayor Bloomberg, as well as Governor Cuomo and his predecessor, David Paterson, have pushed for reduced benefits for public employees, staking the financial future of the retirement funds on new pension tiers requiring higher retirement ages and increased employee contributions.

**Predicts Costs Will Decline**

Increased pension benefits granted by state legislation also played a part, the report said, but 90 percent of those increases came in 2000, “when asset values were at their peak levels.” But because less-expensive plans for new hires have since been introduced, “as employees in the new plans replace older workers in the more-expensive plans, pension costs should decline,” the report said. Those changes, however, so far affect only new Teachers, Police Officers and Firefighters, and only the United Federation of Teachers has accepted a version of the Tier 5 pension plan that is standard for new state workers.

Those 2000 increases, along with a similar batch in 1999, were enacted in exchange for union approval for the city and state to pull money out of the systems for their operational budgets.

In general, the report counters the oft-presented view of the pension systems as a deep debt burden for the city that continue to hemorrhage funds. Returns in fiscal 2010, at 14.2 percent, were well above the 8-percent assumed rate of return, showing a bounce-back to fiscal stability. It was not enough, however, to neutralize the dot-com bust of the early 2000s, along with the more recent fiscal crisis, that led to negative returns in 2001 and 2002 (both -8.3 percent) and 2008 (-5.4 percent) and 2009 (-18.3 percent).

**Lower Returns Cost $49B**

“These lower returns created a Fiscal Year 2010 gap of about $49 billion between what the pension funds were expected to possess in terms of assets and what they actually did,” the report stated.

The report pegs lower returns as counting for 48 percent of the additional costs the retirement systems have seen, with benefit enhancements accounting for 44 percent (40 percent of that number coming from the changes made in 2000).

Along with the 2000 changes, cost-of-living increases, a more generous final-average-salary calculation for police and fire funds, and service credits for Tiers 1 and 2 (along with reductions for Tiers 3 and 4) account for the benefit enhancements put in place over the last 10 years.

Some actuarial differences accounted for a $1.7 billion (or 6-percent) loss over the same period as well, the report states. Such differences came about “as actual information about longevity, salaries, overtime, disability, early retirement, and buy-backs of service proved [they were] more costly than initially assumed.”

The report’s conclusion said that much of the inflamed rhetoric about the city’s dire situation should be ignored, and Wall Street’s unpredictability should be further reined in.

**Pensions a Recruiting Tool**

“Reasonable pension benefits are an effective tool to attract and retain qualified employees to municipal service,” it said. “The city’s immediate aim should be to increase investment income while reducing volatility, thereby containing pension expenses without pushing costs to future taxpayers."

It added, "New Yorkers should be proud that in spite of tough economic times, the city has appropriately funded its pension liabilities and, with normal investment returns, the pension funds should be stronger in years to come."