Study Finds Pension Costs Will Drop Within 5 Years

By DAVID SIMS | Posted: Monday, June 6, 2011 5:00 pm

City pension costs will plateau in 2016 and then begin a “gradual, steady decline,” according to a new report from City Comptroller John C. Liu that undercuts Mayor Bloomberg’s assertion that pensions need to be cut back further before they become a crippling financial burden for the city.

While pension costs made up 10.6 percent of the city’s budget in 2010, and will rise to a high of 11.4 percent in 2016, that number will fall to 3.3 percent 50 years from now, according to the report, titled, “Sustainable or Not? New York City Pension Cost Projections Through 2060.”

Less-Costly Plans Taking Root

Because of less-expensive benefit plans enacted between 1995 and 2009, as more and more employees are hired under those new pension tiers, the city’s burden will significantly lighten, the report predicted.

“Poor market performance over the past decade means we still have a few tough years ahead as those investment losses catch up to us,” Mr. Liu said in a statement. “However, significant reforms already implemented in recent years will drive down costs for decades to come.”

The projections in the study were produced by independent actuaries at the Hay Group, a consulting firm. The group used different scenarios to make its projections, basing them on either an 8-percent rate of return, a 7.5-percent rate or a 7-percent rate. Their findings are based on the 8-percent rate, which is used by the city’s Office of the Actuary, although all actuarial assumptions are being revised this year.

“By Fiscal Year 2060...city contributions to employee pension funds will represent about 4.5 percent of the city’s total tax revenues, compared to 17.9 percent in 2010,” the report stated.

Recession’s Impact Fades

There are two main reasons for the decline in contribution costs. By 2016, the adverse impact of the 2008 recession will have dissipated, and the effects of the revised Tier 4 plan enacted in 1995 and the Tier 3 system that uniformed Police and Fire Department hires had to join after 2009 will be felt.

The Tier 4 plan lowered the retirement age to 57 from 62, but required employees to contribute an additional 1.85 percent of their salary to their pension fund for the first 30 years of service. The uniformed plan, enacted by then-Governor Paterson, extends from 20 to 22 the years of service necessary to get a 50-percent-of-salary pension benefit, changes how the final salary is calculated and reduces disability benefits.

A 2009 agreement on Teacher pension plans that require a 4.85-percent salary contribution for the first 27 years of service and 1.85 afterwards is also factored into the projections. That deal also raised the vesting age from five to 10 years on the job.

“As more senior employees enrolled in earlier pension plans retire and are replaced with employees enrolled in the newer plans, the real cost of pensions to the city will decline,” the report stated.

Cheaper Than in Mid-’90s

“By Fiscal Year 2060, pension contributions as a share of gross city product, as a share of tax revenues, and as a share of total revenues or expenditures will be at levels below those of the mid-1990s,” it concludes.

An aide to Mr. Bloomberg disputed Mr. Liu’s numbers. Mayoral spokesman Marc LaVorgna said in a statement, “The report is riddled with flaws, like somehow assuming life-expectancy will not change. The entire document in the functional equivalent of whistling a happy tune past the graveyard. We’ve got major problems—rosy scenarios aren’t going to solve them.”

He noted the report showed that costs would continue to rise, just not as quickly as recently.