Pension Earnings Rate Reduction Hits Sudden Turbulence From MLC

By RICHARD STEIER | Posted: Monday, February 13, 2012 5:00 pm

The head of the Municipal Labor Committee last week warned that city union leaders might block approval of a reduction in the assumed-earnings rate for the five pension systems that is meant to provide long-term benefit stability unless part of an unexpected $425 million in annual savings from the transaction is used for overdue pay raises.

Harry Nespoli, who is also president of the Uniformed Sanitationmen's Association, contended that Mayor Bloomberg kept moving budget surpluses into future spending plans as a way to avoid giving salary hikes at a time when "you have unions that are two years without a contract and workers who have bills to pay."

Price for a No-Cut Budget

A spokesman for the Mayor responded that it was this money—which materialized after Chief City Actuary Robert C. North revised the time-frame in which payments have to be made into the systems to compensate for the proposed reduction in anticipated earnings—that allowed him to put forth a spending plan earlier this month in which "we're not cutting any services, we didn't add any layoffs, we didn't add any fees."

Mr. North has recommended that the assumed-earnings rate be lowered by an unprecedented full point—from 8 percent to 7—in recognition of a fall-off in recent years caused by the stock-market meltdown and the likelihood that even as conditions improve the current earnings assumption would be hard to sustain in the decades to come. Prior to his issuing his findings, mayoral spokesman Marc LaVorgna had said that each quarter-point downgrade could cost the city between $350 million and $500 million in additional required contributions to the five funds—the New York City Employees Retirement System, the Teachers Retirement System, the Police Pension Fund, the Fire Pension Fund and the Board of Education Retirement System. Mr. Bloomberg had budgeted $1 billion to cover the anticipated additional contributions.

Stretches Out Payment Period

The Chief Actuary made adjustments in several areas that reduced the potential cost. Perhaps the most-significant one was in permitting the money needed to adequately cover benefits to be paid over a longer period—where it now varies from roughly 10 to 15 years, depending on which pension system, under the change 22 years would be the standard for all five.

Slowing down the rate at which the city must contribute significantly offset the burden presented by having to upgrade the amount contributed because of the lower assumed rate of earnings. As a result, under Mr. North's proposal the city would have to pay just $575 million more to the five systems

combined in each of the next two years.

Mr. Nespoli is among the union leaders who believe the $425 million that Mr. Bloomberg originally budgeted but won't be needing because of the change should be used to fund pay hikes. And in an interview in the New York Post that appeared Feb. 4, he questioned whether the assumed-earnings rate had to be reduced so much, arguing that additional money could be made available if the rate was set at 7.25 or even 7.5 percent.

In a phone interview with this newspaper Feb. 9, he remarked, "States and cities that are in worse shape than New York—43 of them—didn't go down a full point. The MLC feels that it isn't necessary to go down that far. Wall Street has recovered. We're looking to see if some of the money can be used to pay the workers what they deserve."

'237' Head: Still Seems Justified

Not all union leaders are pressing the issue, however. Teamsters Local 237 President Gregory Floyd, while emphasizing he has not discussed the matter with Mr. Nespoli, said he had not changed a position he expressed in December that he saw no basis for quarreling with Mr. North's conclusion that a full-point earnings reduction was warranted. "I said it was fairly well-grounded," he stated last week, "and I still think it was fairly well-grounded."

Mr. North emphasized the delicate balance he has had to strike between a realistic earnings rate and the pressure placed on the city budget by a reduction of this size unless some of the short-term cost was mitigated by stretching out the amortization.

"No part of the package can be modified," he said, without affecting the other elements. "The 7 percent [earnings assumption] is an essential part. The 22 years is the most it could be stretched as part of that package" and still be considered actuarially responsible.

Further complicating matters is that those calculations also include an estimate as to how much wages will rise, which affects the retirement allowances to which workers are entitled when they begin collecting their pensions. And so if some of the money saved by the city was devoted to pay hikes that could be retroactive by more than two years (it would be less for employees like the Sanitation Workers represented by Mr. Nespoli, whose contract expired less than five months ago), that would disturb the other calculations somewhat.

'Unions Shouldn't Pay Price'

But the MLC leader said many employees and some labor leaders feel as if Mr. Bloomberg has done an artful job of pushing money forward to avoid having it available in the budget for raises. "The surpluses are there [at the end of the fiscal year] but there's always a reserve and he's moving it over," he said of the Mayor. Noting strong investment performances for the five funds last year—including a gain of 23 percent for NYCERS—after years of returns that ranged from

disappointing to dismal, Mr. Nespoli said, "That's gonna amount to three-and-a-half billion dollars. Yes, the pensions took a hit [before that] but that wasn't the unions' fault. That was Wall Street."

But two other union officials, both of whom spoke conditioned on anonymity, said one reason the systems had been so in need of massive city contributions over the past decade was that profits from the boom years of the late 1990s had been taken out of the pension systems and divided through a mix of budget infusions and improved benefit rights for workers that was agreed to by the unions with Gov. George E. Pataki, Mayor Rudy Giuliani and State Comptroller Carl McCall.

In retrospect, one of them said, "That was just about the worst thing Giuliani and Pataki could have done to the pension funds. If we don't fix it somehow, we're gonna have a real problem." Referring to one of the employee benefits that came out of that "restart" deal of a dozen years ago, he continued, "How do you maintain a system where the employees stop contributing after just 10 years?"

It is not clear how strong the sentiment runs among the union trustees on the pension boards for resisting the assumed earnings drop unless money is made available for pay hikes. Two of the three labor votes on the NYCERS board are cast by Mr. Floyd and Transport Workers Union Local 100, one of whose representatives also praised Mr. North's proposal when it was first circulated late last year.

March Votes Expected

It is expected that the boards will be voting on the changes sometime next month. If they were rejected, it is unlikely they would gain final approval in the State Legislature, and the current earnings rate would remain in effect. That would in theory free up the $575 million in higher contributions in each of the next two years that the Mayor has included in his spending plan, but it would also place greater pressure on the budget in the future if earnings continued to average below 8 percent.

Although Mr. Bloomberg has said the 7-percent projection may be overly optimistic, Mr. LaVorgna said the city was supporting Mr. North's recommendations, explaining, "We think they're responsible. It meets all the criteria for proper actuarial calculations."

He continued, "We think the best strategy for everybody is to have a reasonable system to be able to make the retirement payments. We [currently] have an unsustainable system."