Increase of 17.4% In Its Pension Funds Good News for City

By DAN ROSENBLUM | Posted: Monday, August 4, 2014 5:15 pm

Stringer_Scott_Alt07.jpg

SCOTT STRINGER: Assumed rate of return doubled.

The city's pension funds grew by 17.4 percent over the last fiscal year, reaching a record high of $160.5 billion, the Comptroller's Office announced July 28. The returns in the five pension funds that cover the Police, Firefighters, Department of Education employees and other city workers could save the city nearly $4 billion in contributions from fiscal year 2016 through 2021.

Over the last five years, city pension funds returned an average of 13.4 percent, more than the assumed rate of 7 percent. The growth rate dipped as low as 1.4 percent in 2011-2012 and as high as 23.2 percent the previous year.

$9 Billion This Year

The de Blasio administration is expected this year to spend $8.47 billion of its $75-billion budget on pensions. Payments were planned to grow to $9.28 billion in 2018, but the higher-than-forecast investment growth means the city can soon pay less into the funds. The city's phased-in pension savings will be $178 million in fiscal year 2016, $356 million the following year and reach $949 million in 2020, the Comptroller's Office projected. Then, through 2030, annual pension payments could be reduced by $1.19 billion, reaching savings as high as $17.8 billion through 2035.

Before he left office, then-Mayor Michael Bloomberg said the rising pension costs would threaten the viability of the city's finances, noting a rise in city contributions from $1.5 billion at the start of his administration to $8.2 billion last year. However, a major trigger of the ballooning obligations was the bullish market of the 1990s—which created surpluses at the start of the Bloomberg administration—that ultimately cratered in the 2008 economic crisis. In 2008-2009, the funds lost 18.3 percent of their value.

In a statement, Comptroller Scott Stringer, an investment adviser, custodian and trustee to the city's five pension funds, extolled the last several years of positive returns.

"The city will benefit significantly from the savings generated by these investment returns," he said. "Any year in which the pension funds achieve double the assumed rate of return is a good one in my book."

Chief Investment Officer Scott Evans credited the "unusually strong" returns in the fiscal year that ended June 30 with "strong growth in our equities portfolio coupled with a diversified investment strategy."

State funds have seen comparable gains. In the spring, state Comptroller Thomas P. DiNapoli said a higher-than-expected growth of the state's largest pension fund—which bounced back to $176.2 billion after sinking to $110.9 billion in 2009—would mean lower contributions from state and local governments.