City Unions Fire Back At Claim Pensions Are on Shaky Ground

By DAN ROSENBLUM | Posted: Monday, August 18, 2014 4:45 pm

floyd_gregory_alt02.jpg

GREGORY FLOYD: Making up for past mistakes.

Union leaders and pension trustees mobilized last week to dispute a report doubting the long-term health of the city's pension funds.

A New York Times article published Aug. 3 noted that the city's contributions continued to grow while the funds' managers had a risky—and sometimes politicized—investment strategy and maintained entrenched layers of bureaucracy and unrealistically high expectations of returns.

Among the statistics cited was that from 1999 to 2012, the New York City Employees' Retirement System fell from being 136-percent funded to only 63 percent.

But the system's defenders rejected the idea that the $160.5-billion fund was mismanaged, saying recent reforms and sharply improved recent returns would help reinforce the funds' sustainability.

'237' Head: False Alarm

Teamsters Local 237 President Gregory Floyd, who has sat on the NYCERS board for seven years, said average New Yorkers "do not worry about the pension fund."

"The people who worry about the pension fund are re-investors who see the pension fund as the last bit of cash that they can extrapolate from this nation," he said. "Because they've exhausted every other means and spent every other fund."

During a July 29 state Financial Control Board meeting, private-sector member Lawrence Golub warned Mr. de Blasio that the city still had $72 billion in unfunded pension obligations and $92 billion in retiree-health obligations. Mr. de Blasio later said that departmental cost reductions and recently negotiated health-care savings, expected to save $3.4 billion through fiscal year 2018, were steps to shrink those liabilities.

The city's spending on pensions is projected to grow from $8.47 billion this year to $9.28 billion in 2018, according to the Comptroller's Office, but a 17.4-percent return over the recently-concluded fiscal year is expected to reduce those annual contributions by hundreds of millions of dollars.

Warned of Rising Costs

Last year, when then-Mayor Michael Bloomberg cautioned the city about rising pension costs, he noted that city contributions rose from $1.5 billion at the start of his administration to $8.2 billion in 2013. But others say that period is not a good gauge of future pension contributions.

The period cited by the former Mayor began with contributions being unusually low because of the gains made in the stock market boom of the late 1990s, allowing the city to put less money into the system. The crashes in 2001 and 2008 erased much of the funds' gains, requiring greater contributions from the city.

Also, in 2000, with the investments flush with cash from the dot-com bubble, then-Gov. George E. Pataki, State Comptroller Carl McCall and Mayor Rudy Giuliani agreed to major reductions in employee contributions in return for the city being allowed to divert $800 million in scheduled contributions over 2000 and 2001 back to its operating budget.

'Paying for Their Blunder'

Mr. Floyd called the decision a "mistake" which took a vital cushion from the funds.

"The city chose not to pay then and they're paying more now," he said. "So, to blame employees and the pension system for decisions that were made in 2000 is unfair. Yes, the pensions are paying more, because it's like a make-up."

He disputed the notion that the system was unsustainable, saying it would work as long as firms manage the money properly and the city contributes its fair share.

One pension expert, speaking conditioned on anonymity, said that it was true that the five systems were "not well-enough funded. We've had a tough decade, and we've got a mature fund with a lot of retirees."

On Path to Full Funding

But he said the Times piece had glossed over the steps that have already been taken to deal with the problem. "The idea that we've dug so deep a hole that we can't get out is nonsense," he said. "The more-important part of the story is not where you are, but what you're doing about it. The [pension] trustees and the city should be commended for following the Actuary's recommendations for getting back on the path. If they stay the path, we should be fully funded by 2032."

The city's pension system is a collection of five separate funds, comprised of NYCERS, the Police Pension Fund, Fire Department Pension Fund, Teachers' Retirement System and the Board of Education Retirement System. Fifty-eight trustees manage the systems and the Comptroller oversees and advises the funds.

In 2011, then-Comptroller John C. Liu and Mr. Bloomberg announced plans to delegate each system's decision-making authority to a single investment board. Supporters said the move would have made the systems able to more quickly react to market decisions, eliminate sluggish transitions between the election of Mayors and Comptrollers and remove redundant bureaucratic layers.

Unions such as the United Federation of Teachers and Patrolmen's Benevolent Association supported the plan, which would have led to Mr. Liu ceding some of his authority over what was then a $120-billion fund. It eventually foundered after opposition from union trustees, including Transport Workers Union Local 100 President John Samuelsen and Mr. Floyd, and Mr. Liu became embroiled in a Federal investigation into his campaign fundraising.

'Recipe for Corruption'

"The whole merger that the former Comptroller, John Liu, set up was a recipe for corruption," Mr. Floyd said of the plan. He said he'd be "open to listening" to bringing the systems closer, provided the pension funds themselves are not merged and he would not have to give up a voice on investments and other pension matters.

Comptroller Scott Stringer said last year as a candidate that political "skill-set or political will" was not equal to the project's ambition, according to Pension & Investments newspaper.

"The only way we can get pension reform is to work collaboratively with the 58 trustees....You can't just bang your fist and say there will be consolidation or there will be [fewer] trustees. It's not going to happen because the trustees won't vote for that, and they won't support it in Albany," he said.

He suggested combining the funds' resources in other ways and bringing money managers into his office instead of outsourcing to Wall Street firms. In 2010, according to the New York Times, NYCERS spent $175 million on investment fees.

'Streamlining System'

His office last week declined to provide an update on the progress, but in an e-mailed statement, Mr. Stringer said he worked to make the Bureau of Asset Management, which selects advisers, more transparent and banned intermediaries between asset managers and investors. “In partnership with the trustees, we are evaluating ways to modernize and streamline our investment processes and better align our pension systems,” he said.

American Federation of Teachers President Randi Weingarten, named last year by an investment magazine as the nation’s most influential figure in defined-benefit pensions, wrote a letter to the Times published Aug. 12 defending the funds’ soundness. In it, she said that the funds were “on the road to recovery” after suffering losses in the wake of the housing bubble and the stock-market crash.

“A recent study from the National Institute on Retirement Security found that New York City’s pension systems deliver retirement income at a 40-percent-lower cost than a defined-contribution account,” she said.

Three representatives of the UFT, a chapter of the AFT, are trustees at the Teachers’ fund.

Housing Investment

In July, Mr. Stringer announced the five funds would invest $40 million in a city-led affordable-housing plan with an expectation of a 2.75-percent return rate. It is far below the expected rate of 7 percent, but some dismissed the suggestion that trustees trading high-growth for political interests was necessarily unwise.

In last week’s issue of THE CHIEF-LEADER, Mr. Samuelsen, a NYCERS trustee, said a firm profiting from union members’ business and subsequently attacking labor was a risk they would “take seriously” and was skeptical of the decisions made in “Wall Street boardrooms.”

There still remains plenty of skepticism from those looking for fewer investments in the public sector. E.J. McMahon wrote last week for the business-funded Empire Center that the assumed rate of return was kept artificially high in order to avoid costly investments in the fund.

Doubts About Returns

He said the pension systems could be fully funded in the next decade or two if investment returns averaged 7 percent yearly, public-pension benefits don’t increase and city and state officials don’t manipulate actuarial assumptions to keep costs low.

“Based on historical experience, this won’t happen,” he wrote.

Harry Nespoli, chairman of the Municipal Labor Committee, also responded to the article in an unpublished letter to the Times which was provided to this newspaper. He said public pensions were “not in an irreversible downward funding spiral that threatens the entire city budget,” and cited an investment strategy that reduces exposure to the volatility of the private-equity market.

“Wall Street’s machinations cost public pension plans (and other institutional investors) 30 percent or more of their asset value—hence the need for greater city contributions now. But there will be a year-by-year reduction in city contributions as more and more employees enter service with the significantly lower benefits established two years ago with enactment of the Tier 6 law,” which in 2012 raised employee contributions and the retirement age for new state and local employees.

He added there was plenty of time for reforms to benefits, adjusted city contributions and improved investment returns to “fully restore the system’s funding ratio.”