8 Things New Yorkers Should Know About Public Retirement Benefits in New York State

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Public employees in New York State (outside New York City) join one of three pension systems, depending on their occupation. One pension system is dedicated to teachers, another is for employees of police and fire departments, and the last is for all other public employees.

State and local governments and employees contribute to these systems to pay the cost of providing pensions, and the State Constitution protects the rights of employees to the pension benefits in effect during their employment. New York State’s pension funds are well-funded; unlike in some other states, New York taxpayers have continued to pay into public pension funds even during times of fiscal stress to ensure that future State and local retirees will receive their benefits.

This fiscal responsibility has come at an extremely high cost: employer pension contributions have increased sharply over the past decade due to the poor market performance of investments, continual “sweetening” of relatively generous benefits, and reduced contribution requirements for public employees. The trend is projected to continue into the future.

In addition, costs for retiree health insurance are escalating rapidly as well. These costs are not funded on an actuarial basis like pensions, but are paid as incurred from the annual operating budget. As a result, many states have unfunded actuarial liabilities worth tens of billions of dollars; in New York, the State liability for retiree health insurance and other benefits totals $55.9 billion.

Local governments have been similarly strained by rising pension and retiree health care costs. New Yorkers should understand the reasons behind these trends so that they can participate in an informed way in the discussions about how to reform the system. This report presents eight facts about retirement benefits for New York State and local employees intended to stimulate a substantive discourse on pursuing changes to prevent underfunding of the pension systems and to make retirement benefits more fair and affordable.
There are over 500,000 retirees and beneficiaries — more than the population of Rochester, Yonkers and Albany combined.

More than 1.4 million people are enrolled in the three state pension systems. Only 25 percent are State employees, and they belong primarily to the New York State and Local Employees’ Retirement System. Membership in the other pension systems, the Teachers’ Retirement System and the Police and Fire Retirement System, is composed almost entirely of local government employees. Most, over 610,000 people, are or were employed by public schools and colleges. Another 23 percent are or were employees of local governments – counties, cities, towns, and villages – and include most law enforcement officers. A smaller share is comprised of employees of other entities, such as public authorities.

Table 2 shows that more than one-third of all members of the State’s pension systems — or 515,000 people — are currently retired or receiving benefits. In the police and fire system, the share of retirees and beneficiaries is much higher – 46 percent – attributable to retirement plans that have allowed members to retire after 20 or 25 years of service, regardless of age.

Table 1: Membership in New York State Pension Systems by Employer

<table>
<thead>
<tr>
<th>Membership</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>358,377</td>
</tr>
<tr>
<td>Local Governments</td>
<td>336,601</td>
</tr>
<tr>
<td>Schools &amp; Colleges</td>
<td>610,234</td>
</tr>
<tr>
<td>Other</td>
<td>133,078</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,438,290</td>
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</tbody>
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Note: Data exclude 36,365 beneficiaries for whom no detail was provided. Data for Teachers’ Retirement System for 2009; all other data as of 2010.


Table 2: Enrollment in New York State Pension Systems by Status

<table>
<thead>
<tr>
<th></th>
<th>Employees’ System</th>
<th>Percent</th>
<th>Police &amp; Fire System</th>
<th>Percent</th>
<th>Teachers’ System</th>
<th>Percent</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees &amp; Beneficiaries</td>
<td>345,106</td>
<td>35%</td>
<td>30,697</td>
<td>46%</td>
<td>139,297</td>
<td>33%</td>
<td>515,100</td>
<td>35%</td>
</tr>
<tr>
<td>Active Members</td>
<td>529,466</td>
<td>54%</td>
<td>32,449</td>
<td>49%</td>
<td>274,974</td>
<td>66%</td>
<td>836,889</td>
<td>57%</td>
</tr>
<tr>
<td>Inactive Members</td>
<td>114,409</td>
<td>12%</td>
<td>2,893</td>
<td>4%</td>
<td>5,364</td>
<td>1%</td>
<td>122,666</td>
<td>8%</td>
</tr>
<tr>
<td>Total Membership</td>
<td>988,981</td>
<td>100%</td>
<td>66,039</td>
<td>100%</td>
<td>419,635</td>
<td>100%</td>
<td>1,474,655</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notes: Inactive members are no longer employed but not yet eligible to receive benefits. Total retirees include 36,365 beneficiaries and account for higher total membership than shown in Table 1. Data for Teachers’ Retirement System for 2009; all other data as of 2010.

2 State and local employers contribute seven times as much as employees to the pension funds.

For the three pension funds combined, State and local employers contributed 88 percent of total contributions in 2009; that is, they exceeded member contributions by a ratio of more than 7:1. This has not always been the case; total employer contributions to the pension systems have jumped since 2000, while employee contributions have remained steady. While the market decline accounts for some of the increase, a key reason is that legislation passed in 2000 eliminated employees’ contributions to their pensions after the first ten years of service. Furthermore, some members of the police and fire system were not required to make any contribution at all; in this system, employers made 99 percent of the total employer-employee contribution in 2010.

![Figure 1: Total Employee and Employer Contributions to the New York State Pension Funds, 2000-2010](image)

Notes: Includes contributions to the New York State Teachers’ Retirement System (2009), New York State and Local Employees’ Retirement System (2010) and the New York State Police and Fire Retirement System (2010). As an estimate, employer and employee contributions made in 2009 in the Teachers’ Retirement System used in 2010, as well.

Sources: Comprehensive Annual Reports of the New York State Teachers’ Retirement System (2000-2009) and New York State Common Retirement System (2000-2010).

The pension reform package passed by the State Legislature last year mandated a 3 percent contribution by all future State and local employees; however, this is still low compared to the national average. Data from the Bureau of Labor Statistics show that the mean contribution for all state and local workers with a fixed pension contribution requirement is 6.4 percent, with the mean for state government employees at 5.9 percent, local government employees at 6.5 percent, and teachers at 6.8 percent.

The U.S. Census Bureau also collects data on the contributions of state and local employees and employers to their pension systems. The most recent data, from 2008, confirm that New York’s imbalance in contributions is out of line with other states. For all U.S. state systems in 2008, the ratio of employer to employee contributions was 2:1. For New York, that ratio was 9:1, ranking seventh among all states and third among the ten largest pension systems, as shown in Table 3.
NEWLY RETIRED EMPLOYEES RECEIVED AN AVERAGE PENSION OF $33,270.

Employees retiring in 2010 received an average annual pension of $33,270. The average pension received by police and firefighters who retired in 2010 ($61,295) is more than double that of regular civilian employees ($25,440). The average pension for all retired employees statewide, $24,240, is lower than for recent retirees, with higher average pensions for teachers ($35,950) and police and firefighters ($39,808).4
4 **New York is unusual among public pension systems in its inclusion of overtime in final average salary calculations.**

One reason that police and fire employees receive higher pensions than civilian employees is the inclusion of overtime in the salary calculation that determines pension benefits. New York is among a small minority of public employers that include overtime in the calculation of final average salary; the available data indicate that only 6 percent of all full-time State and local employees across the country are eligible to include overtime in the calculation of final average salary used to determine pension benefits.\(^5\)

Including overtime in the calculation of pension benefits encourages a pattern of heavy overtime in employees’ final years of employment. An investigation by the New York State Attorney General recently revealed practices of “pension padding” in 40 of the 50 employers surveyed from across the State. The report documented patterns of overtime that showed employees approaching retirement began working or worked substantially more overtime in their final years of service than other employees in similar positions.\(^6\)

The pension reforms of 2009 provided a modest cap on overtime, limiting it to 15 percent per year of regular salary for police and fire retirees and $15,000 per year – with a 3 percent inflation factor – for state and local employees.

5 **In 2009, 44 percent of service retirees in the State & Local employees’ and Police & Fire Retirement Systems were under age 60.**

State and local employees are eligible for full retirement at age 62 and teachers can retire at age 57 (previously 55) with 30 years of service credit. For police and fire employees, the minimum age requirement was eliminated recently; therefore, new employees can collect a full pension after 20 years of service, regardless of age.\(^7\)

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**Table 5: Retirees and Beneficiaries by Age, As of March 31, 2010**

<table>
<thead>
<tr>
<th></th>
<th>All Retirees and Beneficiaries</th>
<th>New Service Retirees in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>System Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Under 60</td>
<td>48,454</td>
<td>14%</td>
</tr>
<tr>
<td>61-65</td>
<td>63,919</td>
<td>19%</td>
</tr>
<tr>
<td>66-70</td>
<td>63,242</td>
<td>18%</td>
</tr>
<tr>
<td>71 and up</td>
<td>169,491</td>
<td>49%</td>
</tr>
<tr>
<td>Total</td>
<td>345,106</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notes: New service retirees are all employees retiring in 2010 for service, not disability. Category for new service retirees ages 60-64 in the Police & Fire retirement system includes all retirees over the age of 60 due to lack of detailed reporting.

Two of the three pension systems report the distribution of retirees by age. In the State & Local Employees’ Retirement System, 41 percent of those retiring in 2010 on a service pension were under age 60. In the Police & Fire Retirement System, 81 percent of new police and fire service retirees were under age 60; almost one-third were under age 50. For teachers, the average age at retirement is 58 years and 2 months for those retiring on service and 49 years and 4 months for those who have retired on disability.8

6 Retirees also receive health insurance benefits from the State at little personal cost.

Retirees who have ten years of service are eligible to continue in their health insurance plan under the same terms as employees; that is, they pay 10 percent of the premiums for individual coverage and 25 percent for family coverage. Retired employees are eligible to continue to receive health insurance even if they are not yet collecting their pensions. Retirees can use sick leave credits to cover their premium costs; as a result, many pay no premiums for a considerable period after retirement.

The State also reimburses retirees for most of the cost of Medicare Part B premiums. Medicare Part B covers medical services, such as doctors’ visits and outpatient stays. The federal government requires that retirees pay a premium for the program; currently, the base monthly premium is $96.40, and it increases to as much as $350 per month for those with higher incomes. Until fiscal year 2010, the State reimbursed retirees for the full cost of this premium; beginning in the current fiscal year, retirees will be required to pay ten percent of this premium for individual coverage and 25 percent for dependent coverage.

Unlike pensions, retiree health obligations are paid for on a pay-as-you-go basis. While New York earns praise for funding its pension system, it is among the worst states with respect to funding retiree health and other non-pension benefits.9 The future cost of these retirement obligations for retirees is enormous: $46.3 billion for the State and $9.6 billion for SUNY as of March 31, 2010. The unfunded liabilities of local governments are also large; one report estimates total State and local unfunded actuarial liabilities are over $200 billion.10

Governor David Paterson has proposed reforming retiree health benefits to require employee contributions on a sliding scale that would determine cost-sharing in inverse proportion to length of service. For those with a minimum of ten years of service, retirees would be responsible for 50 percent of the premium for individual coverage and 65 percent for dependent coverage. For each additional year of service, the State’s contribution would be increased by 2 percent. The maximum benefit (10 percent for individuals; 25 percent for families) would only be available for those with 30 years or more of service.
At the start of the last decade, New York State was paying $100 million in annual pension contributions; by fiscal year 2009, this amount had grown to ten times that amount. Investment losses suffered by the pension funds earlier in the decade meant that the funds did not meet their targeted rate of return, necessitating increased contributions by the State to keep the pension systems fully funded. In addition, the State Legislature made pensions more costly by eliminating employee contributions after ten years, enacting a cost-of-living adjustment, and continually enriching pensions with “sweeteners.”

The losses suffered during the fiscal downturn of 2008 are just beginning to impact the State’s pension fund contributions, which are projected to reach $2.1 billion by fiscal year 2014. This increase would have been even higher if the State had not enacted an amortization plan that will cap the required employer contribution for the next four years (see Figure 2). While the contribution rate for State and local employers was projected to climb to 23.5 percent of payroll for the State and Local Employees’ Retirement System and 31.4 percent for the Police and Fire Retirement System by 2014, the amortization law caps these rates at 12.5 percent and 20.5 percent, respectively. While this will save money in the short-term, it is a borrowing scheme that increases future costs, and does little to stem the tide of rising pension costs.

**Figure 2: Projected State and Local Contribution Rates to New York State Retirement Systems, Before and After Amortization, Fiscal Years 2010-2014**

Source: New York State Division of the Budget, 2010-2011 Enacted Budget Financial Plan, August 26, 2010, p. 64.
As an alternative to traditional defined benefit plans, the State offers defined contribution plans to some public employees.

In the private sector, large corporations and smaller firms alike have moved away offering from defined benefit plans that place the investment risk entirely on the employer. From 1986 to 2008, the percent of full-time workers in private industry enrolled in defined benefit plans dropped from 76 percent to 24 percent. In the public sector, a similar transition is slowly starting to take place. States such as Michigan and Alaska have moved employees to defined contributions plans for several years, and other states, such as Georgia and Nebraska, are experimenting with hybrid plans that, for example, may guarantee a rate of return but not an annual payout.

While there has been resistance to such changes in New York, a defined contribution plan is already offered to many employees. Faculty and professional staff employees of the State University of New York (SUNY) have the option to choose between a defined benefit plan – under the terms governing membership in the New York State Employees’ Retirement System or Teachers’ Retirement System – or a defined contribution plan. Under the SUNY Optional Retirement Program (ORP), the employer and employee make contributions to a private account that is invested at the employee’s discretion. There is no minimum retirement age, and vesting occurs after a year (or earlier for those who already have a private retirement account). These are particularly attractive advantages for more mobile employees.
ENDNOTES

1 Some local employees, such as teachers, make additional contributions.


7 For additional information on state employee retirement plans and new Tier 5 benefit information, visit the websites of the New York State Teachers’ Retirement System (http://www.nystrs.org/main/benefits/service.htm) and the New York State Office of the State Comptroller (http://www.osc.state.ny.us/retire/employers/tier-5/comparison.php).


