

**THE EXPLOSION IN PENSION COSTS:
TEN THINGS NEW YORKERS SHOULD KNOW
ABOUT RETIREMENT BENEFITS FOR
NEW YORK CITY EMPLOYEES**

**Citizens Budget Commission
April 2009**

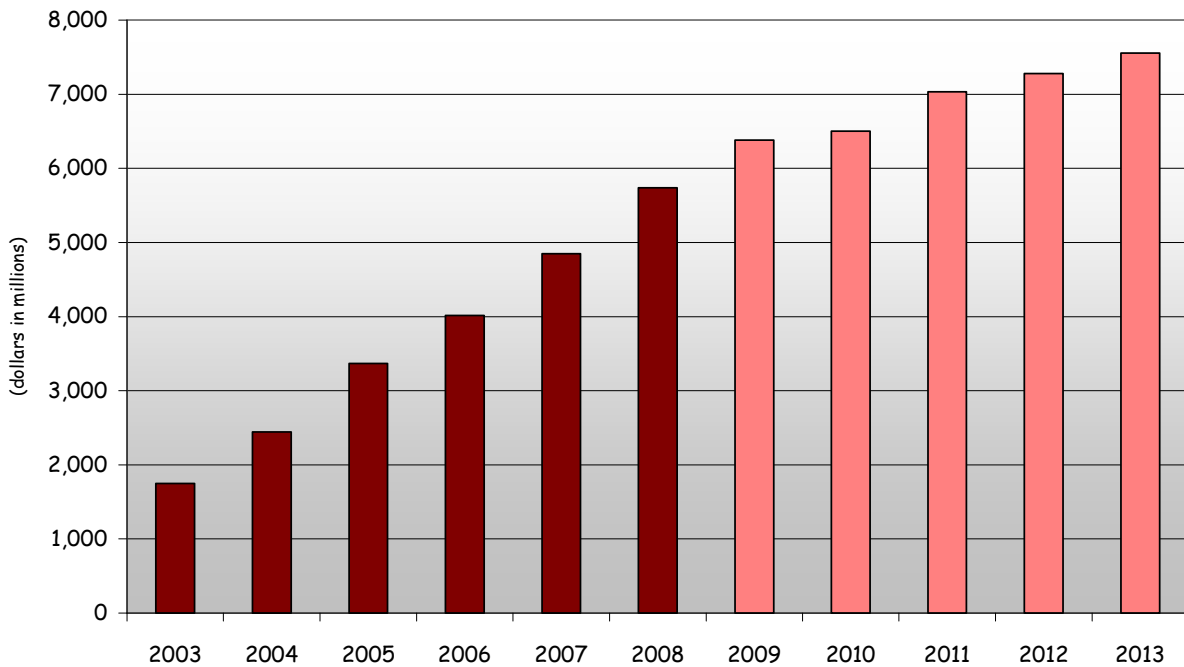


In recent years, one of the fastest growing expenses for New York City government has been retirement benefits for municipal workers. The City's contributions to workers' pensions grew by \$4 billion dollars from fiscal years 2003 to 2008. This growth was driven mainly by investment losses in the pension funds and the enrichment of retirement benefits. The City's pension fund contributions are based on generous standards that require little contribution from employees, allow for unusually early retirement, have liberal calculations for final average salary and make questionable presumptions on the cause of disability. Retirees also receive health insurance coverage without cost and a reimbursement of Medicare Part B premiums from the City. New York taxpayers have a critical interest in understanding the reasons behind the explosion in retirement benefit costs and what can be done to limit future liabilities.

1. SINCE FISCAL YEAR 2003, THE COST OF FUNDING PENSIONS HAS GROWN 230 PERCENT.

City pension fund contributions in fiscal year 2008 were \$5.7 billion, 3.3 times greater than in fiscal year 2003. By fiscal year 2013, they are projected to reach \$7.6 billion, growing 19 percent per year on average since fiscal year 2003.

Figure 1: Pension Contributions by the City of New York, Fiscal Years 2003-2013



Source and notes: NYC Office of the Comptroller, *Comprehensive Annual Financial Reports, FY2003-2008*; NYC Office of Management and Budget, *Financial Plan for FY2009-2013*. FY2009-2013 represent planned amounts.

The rapid rise in required City contributions is due primarily to two factors: enrichment of benefits and poor investment results. Since 2000, the State Legislature has regularly enriched public pensions; meanwhile, the pension funds' investments failed to meet the assumed rate of return in fiscal years 2001 to 2003, requiring larger City contributions since that time. The recent economic downturn also affected the funds: last fiscal year, they lost 5.4 percent of their value and current year estimates place losses at more than 20 percent. This is far greater than the losses suffered from 2001-2003, and it will create hundreds of millions of dollars in new pension liabilities for the City starting in fiscal year 2011.

2. OVER A QUARTER OF A MILLION PEOPLE RECEIVE PENSION CHECKS FROM NEW YORK CITY.

New York City employees join one of five pension systems. In 2007, these systems paid pension benefits to nearly 272,000 retirees.¹ This included about 17,500 retired firefighters, 44,000 retired police officers, 68,500 retired teachers, and approximately 142,000 people retired from other jobs. There are more retired police officers and firefighters than current employees in those professions.

TABLE 1: ENROLLMENT IN NEW YORK CITY PENSION FUNDS

As of June 30, 2007

Pension Fund	Total Membership	Active Employees	Retirees
Fire Pension Fund (FIRE) Uniformed members of the FDNY	29,070	11,528	17,479
Teachers' Retirement System (TRS) Teachers and other education professionals	195,030	109,868	68,492
Police Pension Fund (POLICE) Uniformed members of the NYPD	82,100	34,956	43,731
Employees' Retirement System (NYCERS) Civilians and uniforms, except for police and fire	347,412	180,482	129,281
Board of Education Retirement System (BERS) Non-teachers employed by the Dept. of Education	39,280	21,947	12,991
TOTAL	692,892	358,781	271,974

Source and notes: Retirees include beneficiaries of retirees, including survivors of retirees receiving death benefits. NYC Office of the Comptroller, *Comprehensive Annual Financial Report*, Fiscal Year 2008, p. 95

¹ This includes beneficiaries of retirees, including survivors of retirees receiving death benefits. These other beneficiaries total approximately 22,750.

3. THE RETIREMENT BENEFITS PAID TO NEW YORK CITY'S RETIREES EXCEED \$10.2 BILLION.

New York's City's retirees received \$10.2 billion in pension benefits and other payments in fiscal year 2008.² The funds that pay these benefits are separate from the City's budget and are composed of contributions from the City, employees, and investment income. An annual payout of this size is the equivalent of one-sixth of the City's budget - or more than taxpayers spend on environmental protection, public health, transportation, housing, parks, libraries, cultural institutions, higher education and general government services combined.

4. THE AVERAGE PENSION FOR RECENT RETIREES INCREASES STEADILY AND NOW EXCEEDS \$42,100.

On average, former city employees collect an annual pension of about \$30,000. Recent retirees tend to receive higher benefits, averaging \$42,150 for a new retiree in fiscal year 2006. Recently retired firefighters receive an annual benefit of almost \$73,000 and recently retired police officers receive \$56,600 per year. Recent retirees receive larger pensions due to increases in salary, generous standards in calculating final average salary, and the sweetening of retirement benefits over time. These retirees also receive benefits from Social Security and any other personal retirement accounts, such as IRAs or 401Ks, that they may have.

TABLE 2: AVERAGE ANNUAL PENSION BENEFITS

As of June 30, 2006

	ALL RETIREES		CURRENT YEAR RETIREES	
	Number	Average annual benefit	Number	Average annual benefit
FIRE	17,485	\$42,840	756	\$72,944
TRS	68,492	\$42,798	4,207	\$54,931
POLICE	42,474	\$35,134	2,330	\$56,617
NYCERS	128,789	\$21,548	6,457	\$30,098
BERS	12,573	\$11,319	1,066	\$11,307
TOTAL	269,813	\$29,984	14,816	\$42,154

Source and notes: TRS data as of June 30, 2007 for all retirees; all other data as of June 30, 2006. Total recipients do not match total in Table 1 due to different date of valuation. Data from the Annual Reports of the Pension Systems for the Fiscal Year Ending June 30, 2008.

² Includes benefits and withdrawals from the five pension funds and benefits paid from variable supplement funds. See pension fact #8 for more information on variable supplement funds.

5. THE CITY CONTRIBUTES NINE TIMES AS MUCH AS EMPLOYEES CONTRIBUTE TO THEIR PENSION FUNDS.

For all pension funds combined, the employer contributions exceed member contributions by a ratio of 9:1. Compared to other workers, the contributions required of New York City public employees are low. Most City employees are required to contribute 3 percent of their pay for the first ten years of employment. The average pay for a City employee is \$69,124;³ a 3 percent contribution is \$2,070. Police, fire and some other uniformed employees make a contribution to the pension system for 20 years of service, but the contribution for many is decreased under a program that allows for increased take home pay. In contrast, the mean contribution rate for employees enrolled in defined benefit plans nationwide is 6.3 percent of earnings for state and local government workers and 5.0 percent for private workers.⁴

TABLE 3: EMPLOYER AND MEMBER CONTRIBUTIONS TO PENSION SYSTEMS
Fiscal Year Ending June 30, 2008
(dollars in millions)

	Employer Contributions	Member contributions	Total Contributions	Ratio of Employer to Member Contributions
FIRE	\$780	\$76	\$856	10:1
TRS	\$1,944	\$142	\$2,086	13:1
POLICE	\$1,798	\$144	\$1,942	13:1
NYCERS	\$1,874	\$366	\$2,240	5:1
BERS	\$143	\$27	\$170	5:1
TOTAL	\$6,539	\$755	\$7,295	9:1

Source: : NYC Office of the Comptroller, *Comprehensive Annual Financial Report*, Fiscal Year 2008, p. 134

6. ABOUT ONE OF EVERY FIVE RETIREES IS UNDER AGE 60.

Many City employees are eligible for full retirement benefits before what is typically considered retirement age, i.e. 65 or 62. As a result, almost one-fifth of all municipal retirees are under age 60. Retirement at a relatively young age is especially prevalent among police officers and firefighters; they must serve 20 years to collect full pensions, but can retire at any age. Almost half of all police retirees and one-third of all retired firefighters are under age 60, and more than one-quarter of all police retirees are under age 50. These young retirees are likely to continue to collect their pensions for 30 years or more.

³ See CBC report, "Six-Figure Civil Servants: Average Compensation Cost of New York City Public Employees," January 2009.

⁴ For employees enrolled in defined benefit programs with fixed contribution requirements. See U.S. Bureau of Labor Statistics, "National Compensation/Employee Benefits Survey - Annual Bulletin," March 2008.

TABLE 4: RETIREES BY AGE AND PENSION FUND

As of June 30, 2006

	FIRE	POLICE	TRS	NYCERS	BERS	TOTAL
Total Beneficiaries	17,485	42,474	68,492	128,789	12,573	269,813
<u>AGE - Percent Distribution</u>						
Under 49	14%	27%	0%	3%	1%	7%
50-59	19%	20%	9%	12%	5%	12%
60-69	26%	28%	40%	31%	30%	32%
70 and up	41%	26%	52%	53%	65%	48%
TOTAL	100%	100%	100%	100%	100%	100%

Source and notes: TRS data as of June 30, 2007. From the Annual Reports of the Pension Systems for the Fiscal Year Ended June 30, 2008.

7. ALMOST ONE OF EVERY THREE POLICE AND FIRE RETIREES COLLECTS AN ACCIDENTAL DISABILITY PENSION UNDER MORE GENEROUS TERMS.

An employee who retires typically is entitled to a pension of 50 percent of his/her final salary; however, those injured in the line of duty can collect accidental disability pensions, calculated at 75 percent of final salary. About 42 percent of retired firefighters and 25 percent of retired police officers receive accidental disability pensions. In total, more than 18,000 retired police officers and firefighters receive accidental disability pensions, four times as many as in the rest of the pension systems combined. The high rates for police officers and firefighters reflect, in part, a State definition of "in the line of duty" that presumptively considers many ailments, such as some heart and lung diseases, to be employment-related.

TABLE 5: RETIREES BY TYPE OF PENSION

	FIRE		POLICE		ALL OTHERS	
	Retirees	Average annual benefit	Retirees	Average annual benefit	Retirees	Average annual benefit
Total Number	17,485	\$42,840	42,474	\$35,134	209,854	\$27,871
Accidental Disability	42%	\$54,223	25%	\$43,654	2%	\$31,323
Ordinary Disability	8%	\$44,780	9%	\$29,512	5%	\$15,280
Service Retirement	39%	\$37,254	62%	\$33,613	83%	\$30,088
Other benefits	10%	\$16,054	4%	\$14,845	9%	\$14,509

Source and notes: TRS data as of June 30, 2007. From the Annual Reports of the Pension Systems for the Fiscal Year Ended June 30, 2008.

8. IN ADDITION TO THEIR PENSIONS, RETIRED POLICE OFFICERS AND FIREFIGHTERS RECEIVE A \$12,000 "CHRISTMAS BONUS" EVERY YEAR.

Police officers and firefighters who retire with 20 or more years of service (but not on any type of disability) receive a supplemental retirement benefit of \$12,000 per year. Since these payments are made in December, they are often referred to as "Christmas bonuses." Police officers and firefighters who are eligible for retirement after 20 years but choose to remain employed have these payments banked for them. Upon retirement, they receive the accrued funds as a lump-sum payment. Christmas bonuses are paid from special funds established with a transfer from the pension systems. In fiscal year 2008, these funds paid benefits totaling \$455.6 million.

9. RETIREES ALSO RECEIVE THEIR HEALTH INSURANCE WITHOUT CHARGE, AND THE COST OF COVERAGE TO THE CITY IS EXPECTED GROW BY MORE THAN 10 PERCENT A YEAR.

Retirees who worked for the City for at least ten years are entitled to coverage under the health insurance plans offered by Group Health Incorporated (GHI) and Health Insurance Plan of Greater New York (HIP). There is no premium cost for retirees for this basic coverage. In addition, for retirees over 65 who qualify for Medicare, the City reimburses the full premium cost of Medicare Part B, an optional federal benefit that covers medical services. The City (along with the State) is exceptional in offering reimbursement of these premiums. In total, the City spent \$1.1 billion on health care for retirees in fiscal year 2008, and the amount is projected to grow 54 percent to \$1.9 billion in fiscal year 2013. Unlike pension benefits, these costs are paid directly out of the City's operating funds.

10. PENSION BENEFITS ARE PROTECTED BY THE STATE CONSTITUTION AND CANNOT BE MODIFIED OR REDUCED.

The Courts have interpreted the State Constitution to guarantee a public employee the pension benefits available at the time he/she is hired. These benefits cannot be reduced. Any changes to reduce benefits must be made by the State Legislature and can apply only to new employees. This has resulted in four 'tiers' of benefits, each somewhat less generous than the original tier. The last tier was adopted in 1983, but the Legislature has regularly enhanced the benefits applicable to employees in the third and fourth tiers so they are now similar to the one before.

Mayor Bloomberg and Governor Paterson have proposed legislative changes to create a new "tier" for future workers that would provide less costly benefits; these changes deserve support. In addition, the Mayor is negotiating with municipal workers' unions for employee contributions to health insurance premiums; this concept should also be applied to retirees. Lastly, "Christmas bonuses" for police officers and firefighters, which are unusually generous but not constitutionally protected, should be lowered or eliminated.

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A Report of the Citizens Budget Commission

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