Public employee pensions in New York state

New York state's school district employees (outside of New York City) generally belong to one of two public pension systems: the New York State Teachers' Retirement System (TRS) and New York State Employee Retirement System (ERS). TRS members include teachers, counselors, and principals, while support staff members are generally part of ERS.

The pension benefits that individual retirees receive depend on various factors, including which system they are in; their salary; the date employment began; years of service; and age at retirement.

Pension systems have three sources of revenue: employee contributions, employer contributions (from state and local government and school districts), and the investment returns on these contributions.

Employee contributions are based on the date employment began. Employees hired before July 1976 have not been required to contribute. Those hired since then have had to contribute at least 3 percent of their salaries for a portion of their careers, with newer employees contributing 3 percent or more for the duration of employment.

How are the contributions of state and local governments and school districts determined?

Employer contributions for both systems are determined based upon future liabilities (anticipated pension payments) and the value of the funds. These rates are set annually to ensure that both systems are essentially fully funded in relation to future obligations. In essence, the pension costs of state and local governments are calculated after accounting for employee contributions and the performance of the fund's investments. Therefore, as economic conditions fluctuate, so too do the actuarially determined rates paid by government employers — those that most directly impact taxpayers.

New York has earned high marks for its commitment to funding its state pension systems. The majority of retiree benefits are funded by investment income. Yet, when the economy is slow, government employers — taxpayers — must make up the difference to maintain the state's commitment to a fully funded system. This has helped force difficult budget decisions in New York's school districts in recent years.

School district participation in the pension systems — and annual contributions — are required by New York state.

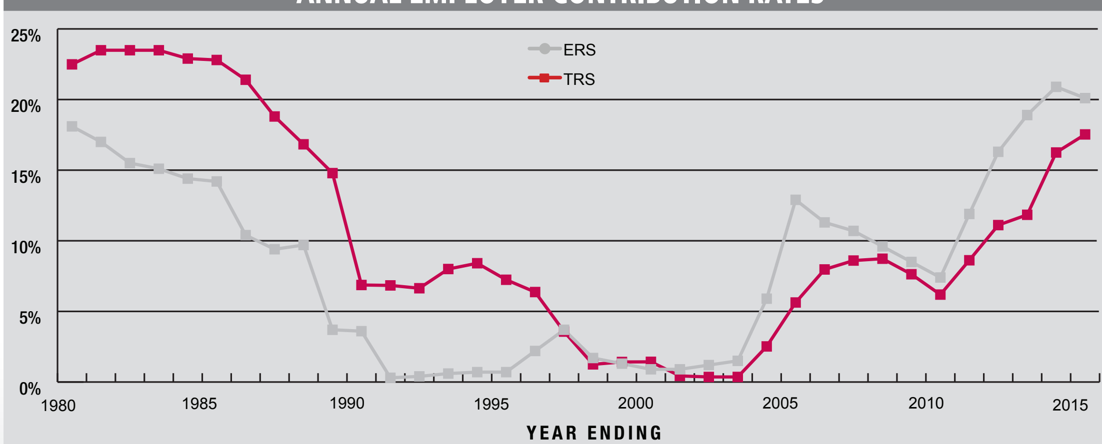
NEW YORK PUBLIC EMPLOYEE PENSION SYSTEMS BY THE NUMBERS…

ERS	TRS
613,930 Active members	**273,328** Active members
380,899 Retirees & beneficiaries	**152,822** Retirees & beneficiaries
$20,766 Average pension benefit	**$41,046** Average pension benefit
71.8 percent Portion of fund revenue from investment income, 2013	**86.2 percent** Portion of fund revenue from investment income, 2013
6.16 percent 25-year average of employee contribution rates	**6.17 percent** 25-year average of employee contribution rates

Sources include NYS Teachers' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013; New York State and Local Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended March 31, 2013.

Participation in both the Teachers' Retirement System and Employee Retirement System is not negotiated between a school district and its employees. The required contribution rates for all state and local government employers are set by each system annually. The rates represent a percentage of an employee's salary that districts are required to contribute to the system in which they are members.

ANNUAL EMPLOYER CONTRIBUTION RATES



BACK PAGE > The evolution of pension tiers & the misunderstood pension exclusion from the state's tax levy cap

Pursuing pension savings: Membership Tiers

Over time, lawmakers have tried to reduce future pension costs for state and local governments and school districts by creating new "tiers" or levels of membership that carry different benefits and employee contribution requirements. The most recently passed was Tier 6, which offers more limited benefits than the initial Tier 1.

Because new pension tiers apply only to employees hired after the new tiers go into effect — and do not affect existing workers — the bulk of the savings that result from the new tiers will not be realized for some time. At the time Tier 6 was signed into law, it was estimated that it would save $80 billion over a 30-year period.

Additionally, with school districts struggling to balance their budgets in this difficult economy, most have made reductions to staffing levels, limiting the number of new employees who fall into the new tier.

ACTIVE MEMBERS BY TIER

	ERS		TRS	
	Number	Percent	Number	Percent
Tier 1	6,230	1%	1,968	1%
Tier 2	7,538	1%	2,447	1%
Tiers 3 & 4	511,757	83%	240,708	88%
Tier 5	59,931	10%	19,452	7%
Tier 6	28,474	5%	8,753	3%

PROGRESSION OF PENSION TIERS IN NEW YORK

This timeline shows some of the major changes to public employee pensions as new tiers have been added. How to read this information: Employees are members of the tier that was most recently implemented at the time they are hired. For example, an employee hired in 2011 is a member of Tier 5.

TIER 1
Prior to July 1973

- 20 years of service to retire at 55
- No employee contributions
- Pension is 60 percent of final average salary with 30 years of service

TIER 2
1973

- 30 years of service to retire at 55

TIER 3
1976

TIER 4
1983

Tiers 3 & 4

- New employees contribute 3% of salary
- Tighter cap on final average salary

CONTRIBUTION CHANGE 2000

- 3% contribution for Tiers 3 & 4 now applies to only first 10 years of employment

TIER 5
2010

- **Retirement age:** 57 for TRS and 62 for ERS

TIER 6
2012

- 3%+ contribution applies to length of service
- Retirement age: 63 for ERS & TRS
- Pension is 55% of final average salary with 30 years of service

Retirement ages and years of service indicated apply to retiring without penalty, or with the full "pension multiplier."

Clarifying the pension exclusion in New York's tax levy "cap"

The pension exclusion in the state's property tax levy cap has been widely misunderstood as excluding any year-to-year pension cost increase greater than 2 percent from a district's tax levy limit calculation. This is not the case: The legislation excludes only those pension costs that are attributable to an increase in the mandated employer contribution rates that exceed 2 **percentage points.**

There is a difference between "percent" increase and "percentage point" increase. This is illustrated in the table to the right and by the fact that in 2014-15, for the first time since the tax cap was implemented, the state's school districts will not have a portion of their pension contributions to either system excluded from their tax levy cap calculation.

While there is no pension exclusion next year, school districts will continue to experience significant pension costs, as well as an increase in the contribution rate for TRS that is greater than 7 percent.

- For 2014-15, the ERS rate is decreasing 0.8 percentage points — to 20.1 percent, or about 20 cents of each dollar in salary that employers will pay into the system.
- The TRS contribution rate is increasing from 16.25 percent of salaries to an estimated 17.53 percent. The increase of 1.28 *percentage points* equates to a rate increase of 7.3 *percent*.

CONTRIBUTION RATE CHANGES FOR 2014-15
PERCENTAGES & PERCENTAGE POINTS

	ERS	TRS
Contribution rate change	2013-14 to 2014-15 20.9% to 20.1%	2013-14 to 2014-15 16.25% to 17.53% (est.)
Change in percentage points	-0.8 percentage pts.	+1.28 percentage pts.
Increase needed for exclusion	2.0 percentage pts.	2.0 percentage pts.
Percentage change	**-3.8 percent**	**+7.3 percent**

A district's pension costs are calculated by applying the contribution rates, as a percentage, to employee salaries. Regardless of how much is excluded, or not, from the tax levy "cap" calculation, districts still must pay the expense of the full contributions.

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