UNDERSTANDING THE NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

An Overview for Local Governments

New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of Local Government and School Accountability
As you are aware, the value of the New York State Common Retirement Fund declined in fiscal year end March 31, 2009 as a result of the global economic collapse. Consequently, employer contribution rates to the Fund will increase in 2011.

I realize an increase in employer contribution rates is a hardship for municipalities. To help mitigate the financial impact on local governments and taxpayers, I have proposed a rate mitigation plan that would allow employers to amortize the increase over ten years and limit future rate increases or decreases to one percent each year.

I am working with the State Legislature and the Governor to make this proposal a reality before the rate increase takes effect in 2011. To learn more about this proposal, contact my office’s Division of Retirement Services at 518-473-4132. For assistance with your municipality’s 2011 budget, please contact the Division of Local Government and School Accountability at 518-474-4037 or email localgov@osc.state.ny.us.

Sincerely,

State Comptroller
Thomas P. DiNapoli
The New York State and Local Retirement System (NYSLRS) comprises two different systems, the Employees’ Retirement System (ERS) and the Police and Fire Retirement System (PFRS). Both State and local employees are members of these systems, but school district teachers and administrators and New York City employees are members of separate pension systems.

The New York State Comptroller is the administrative head and sole trustee of the Retirement System. As fiduciary, the Comptroller has the duty to act solely in the interest of the System’s members and pensioners. The Comptroller guides the investments of the Common Retirement Fund and ensures that the roughly 150 different benefit programs offered to employees are managed properly and effectively.

**NYSLRS Facts**

(for State fiscal year ended March 31, 2009)

- 3,026 State and local government employers participate in the pension system.
- Overall membership in NYSLRS: 1,046,086
  - 679,908 members
  - 366,178 retirees and beneficiaries
  - 92% are members of ERS, and 8% are members of PFRS
- $7.21 billion paid out in benefits in 2009
- Average pension:
  - ERS retirees in FY 2009: $17,615
  - PFRS retirees in FY 2009: $38,367
HOW BENEFITS ARE DETERMINED

ERS and PRFS are defined benefit plans. This means that benefits are based on factors other than contributions, including:

- Date of membership and tier
- Years of service
- Final average salary (FAS)
- Member’s retirement plan
- Member’s age at retirement

MEMBERSHIP TIERS

Pension legislation enacted in 1973, 1976, 1983, and 2009 established distinct classes of membership. For convenience, the System uses a tier concept to distinguish these groups, generally:

<table>
<thead>
<tr>
<th>Tier</th>
<th>ERS Membership</th>
<th>PFRS Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Before July 1, 1973</td>
<td>Before July 31, 1973</td>
</tr>
<tr>
<td>3*</td>
<td>July 27, 1976 – August 31, 1983</td>
<td>NA</td>
</tr>
<tr>
<td>4*</td>
<td>September 1, 1983 – December 31, 2009</td>
<td>NA</td>
</tr>
<tr>
<td>5</td>
<td>January 1, 2010, or after</td>
<td>January 9, 2010, or after (Article 22)</td>
</tr>
</tbody>
</table>

*State correction officers who became members from July 27, 1976, to December 31, 2009, are Tier 3 members.

**PFRS members who joined from July 1, 2009, through January 8, 2010, can choose to be covered by Article 22 as Tier 5 members within 120 days of January 9, 2010.
Most Employees’ Retirement System members are covered by plans that provide the benefits listed below. However, this information would not apply to all plans, including those that allow for retirement after 20 or 25 years of service. Some Employees’ Retirement System members and most Police and Fire System Members are covered by 20- or 25-year plans.

<table>
<thead>
<tr>
<th>Tier</th>
<th>1 &amp; 2</th>
<th>3 &amp; 4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Retirement Age</td>
<td>55</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>&lt;20 years of service</td>
<td>1.67% per year of final average salary</td>
<td>1.67% per year of final average salary</td>
<td>1.67% per year of final average salary</td>
</tr>
<tr>
<td>20 – 30 years of service</td>
<td>2% per year of final average salary</td>
<td>2% per year of final average salary</td>
<td>2% per year of final average salary</td>
</tr>
<tr>
<td>&gt;30 years of service</td>
<td>2% per year of final average salary&lt;br&gt;Maximum benefit is with 37.5 years of service credit</td>
<td>An additional 1.5% of final average salary for each year over 30</td>
<td>An additional 1.5% of final average salary for each year over 30</td>
</tr>
<tr>
<td>When do members receive full benefits?</td>
<td>Tier 1 members at age 55&lt;br&gt;Tier 2 ERS members at age 55 or greater with 30 years of service or age 62&lt;br&gt;Tier 2 PFRS members at age 62</td>
<td>Age 55 or greater with 30 years of service or age 62 with 5 years of service</td>
<td>Age 62 with 10 years of service</td>
</tr>
<tr>
<td>Additional Provisions</td>
<td>Tier 2 members between ages 55 and 62 with less than 30 years of service can receive reduced retirement benefits</td>
<td>Members between ages 55 and 62 with less than 30 years of service can receive reduced retirement benefits</td>
<td>Members between ages 55 and 62 can receive reduced retirement benefits. The ERS Tier 5 benefit reduction is greater than the reduction for Tiers 2 &amp; 4</td>
</tr>
<tr>
<td>Tier 1 and 2 members who meet eligibility requirements receive an additional month of service credit for each year of credited service at retirement – up to 24 months</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The assets of the New York State Common Retirement Fund come from three main sources: investment income, employer contributions, and member contributions.

Historically, the return on investments has provided the majority of the Fund’s income. When markets and investments underperform, employers must increase contributions to the Fund to guarantee full funding. Generally, these adjustments are cyclical and, as investments produce better returns, employer contributions are reduced.

Investment income has provided more than 80 percent of the Fund’s income over the last 20 years.
How Employer Contribution Rates Are Determined

The annual employer contribution rates are determined through an annual actuarial valuation that values the Fund’s assets and liabilities for future benefits.

The valuation uses a number of economic and demographic assumptions including the rate of investment return, salary growth, inflation, and the rates at which retirement, withdrawal, disability, or death will occur. Generally, the economic assumptions have a greater impact on the Fund’s liabilities and, thus, employer contribution rates.

Currently, an 8 percent annual rate of return on investments is assumed. Typically, if the Fund’s investments earn a larger-than-expected return over the long term, the annual contribution rates decrease. Conversely, when the rate of return falls short of projections over the long term, contribution rates increase. Annual increases or decreases in investment earnings are “smoothed out” over a rolling five-year period to mitigate some of the volatility in investment returns.

For details on how contribution rates are determined, visit the Retirement System’s website at www.osc.state.ny.us/retire/employers/employer_partnership/contribution_rates.
A number of factors can affect the amount of an employer’s annual contribution, including:

- **Number of Employees Who Are Members.** Membership in the Retirement System continues to grow. The higher the number of members, the higher the annual payment.

- **Employee Salaries.** Higher salaries also increase the total bill, since employer rates are billed as a percentage of salary.

- **Retirement Plans and Options Offered.** Employers can choose to offer improved retirement plans or enhancements (e.g., one-year final average salary). The greater the benefits for employees, the greater the employer’s annual contribution.

- **Amortization Costs.** Periodically, special legislation allows employers to amortize (“spread out”) a portion of their annual contribution over several years.
For additional information on the Retirement System, contribution rates, the relationship between the Fund and your annual invoice, and your role as a participating employer, visit www.osc.state.ny.us/retire/employers/employer_partnership.

**Employer Contributions**

- FY 2011 average contribution rates:
  - 11.9% of payroll for ERS (up from 7.4% in 2010)
  - 18.2% of payroll for PFRS (up from 15.1%).
- The long-term expected contribution rates, which are calculated assuming the Fund consistently earns an 8% return annually, are:
  - Approximately 9% for ERS Tier 5
  - 11% for ERS Tiers 3 and 4
  - 20% for PFRS for 20-year/50% of salary plans.
MITIGATING EMPLOYER CONTRIBUTIONS

A weakened global economy and subsequent declining value in investment markets negatively impacted the Fund’s rate of return for the fiscal year ending March 31, 2009. As a result, participating employers of the New York State and Local Retirement System will see an increase in their contributions due February 1, 2011, or on the discounted payment date of December 15, 2010.

Rate Mitigation Plan

Comptroller DiNapoli has proposed legislation to mitigate the financial impact of fluctuating contribution rates on State and local governments and to provide government employers with tens of millions of dollars of short-term budget relief. Under this proposal:

- Employers could opt into a mitigated rate system that allows them to amortize a portion of their increased contribution above a mitigated rate
- FY 2011 mitigated rates would be set at 9.5 percent of total salaries in ERS and 17.5 percent in PFRS
- Mitigated rates would increase by 1 percent per year
- Amortized payments would be spread over 10 years
- Employers who opt into the mitigated plan would make an annual minimum payment that is based on the mitigated rate plus any amortized payments due.
On December 10, 2009, the Governor signed legislation that will significantly change retirement benefits and mitigate employer contributions in the long term. ERS members joining on or after January 1, 2010, will be covered by these benefits and will be in Tier 5. PFRS members joining on or after January 9, 2010, may also be covered by these benefits and may also be in Tier 5.

**Highlights of Tier 5**

- Requires most members to contribute 3 percent of their salary for all their years of public service or until they have accrued the maximum service credit allowed in their retirement plan.

- Increases the number of years of service credit needed for vesting and service retirement eligibility from five to 10 years.

- Increases the early retirement reductions for ERS members retiring prior to age 62.

- Eliminates retirement without reduction for ERS members who retire prior to age 62 with 30 years of service credit, except for Uniformed Court Officers and Peace Officers employed by the Unified Court System.

- Caps the amount of overtime that can be used in the calculation of a final average salary.