The Pension Problem: Myth or Reality? The State of Public Pensions in Upstate New York

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EXECUTIVE SUMMARY

Media and popular culture have described public pensions as an enormous threat to local government fiscal health. Are public pensions the problem? This report investigates the claims about public pensions with a focus on New York State. We find that New York State's public pension fund is not running out of money, not overestimating rate of return, and not underfunded. However, the combination of low contribution rates in the past and external pressures, such as the stock market crash, tax cap, and state mandated spending have intensified the effect of public pensions on local government budgets.

Although the New York State pension system is closely monitored and one of the most well funded systems in the country, the media often presents a counter narrative of impending doom. Using research drawn from Comptroller's Office data and interviews with key sources, this paper explores some common pension myths found in popular debates and assesses their validity in New York State.

Research supports the following conclusions:

• **Fact #1**: Public pensions are not running out of money. The system is well funded in New York State.

• **Fact #2:** Public pension funds are not overestimating returns on investment in New York State.

• **Fact #3**: Defined benefit plans are cheaper than defined contribution plans – and they are better for retirees and the economy.

• **Fact #4:** While employees pay a significant portion of pension costs from their own salaries, pension obligations do put pressure on the budget for current services.

• **Fact#5:** Pension obligations are escalating as a result of the financial crisis and will continue to increase as the Baby Boomer generation retires.

• **Fact #6:** Public sector pensions are not overly generous.

• **Fact #7:** Public pensions can stimulate local economies.

Over the last couple of years the media has focused on public pension systems, raising concerns about underfunding and escalating liabilities. Although, inflated pension benefits have received media attention, the majority of workers receive a modest package after retirement. The average pension for all Employees' Retirement System retirees in fiscal year 2013 was $20,766 and $43,844 for Police and Fire Retirement System members (Office of the State Comptroller, 2014). The Great Recession has contributed to the pension problem by reducing returns below historical levels. However, not all pension systems are equal, each state pension system has different structures and characteristics. New York State's pension fund is well managed.

While pensions are not the cause of fiscal stress, they do add to the fiscal burden faced by local governments. Pension obligations are a considerable expenditure for upstate cities struggling to provide services with resource constraints. For example, across the cities of Buffalo, Rochester, Syracuse and Utica, pensions averaged 6% of total annual spending in 2012 (Office of the State Comptroller, 2014). Reforms, such as the amortized payment scheme and the new Tier VI, may help address pension stress, but they are not enough. As society ages, pensions have an important economic impact of ensuring income security for retirees and stimulating the local economy. The challenge is to balance current obligations and future needs so that public workers, local governments and society at large all benefit.

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