



NEW YORK

Tier V Pension Reform
Savings Analysis

Division of the Budget
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Governor
David A. Paterson

Budget Director
Laura L. Anglin

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Introduction

Governor Paterson's Executive Budget would create a new tier of pension benefits (Tier V) for most newly hired public employees. Many of the proposed changes for Tier V would remove pension enhancements added in recent years to Tier IV. These new rules include restoring the minimum retirement age from 55 to 62; requiring employees to continue contributing a percentage of their salaries towards pension costs for their entire careers rather than ending contributions after 10 years; increasing the 2 percent multiplier threshold from 20 to 25 years; restoring the minimum years of service required to draw a pension from 5 years to 10; and others.

In addition, under Governor Paterson's Tier V proposal, overtime compensation would be excluded when calculating pension benefits. This will help prevent "salary spiking" in an employee's final years of service, which inflates both their ultimate pension award and costs to taxpayers. All proposed pension reforms would apply only to new employees, in accordance with the requirements of the New York State Constitution.

Local governments and the state would immediately realize savings from these proposals because their required contributions to their respective pension funds for new employee hires subject to Tier V would be lower than that for current employees. While the amount of savings that accrue would be relatively small in the short term, over time, as greater numbers of new Tier V employees are hired and current employees leave the workforce, taxpayer savings will grow exponentially.

Methodology

The Division of the Budget has conducted an analysis to determine the amount of savings that the Tier V proposal would produce over the next thirty years. These savings estimates were determined using a number of assumptions related to salary increases, turnover ratios, and employer pension contribution rates.

Based on a fiscal analysis by the actuary for the New York State and Local Employees' Retirement System (ERS), the state's pension contribution for Tier V ERS employees would be lower than that for existing employees by 2.5 percent of their respective salary base. An analysis by the New York State Teachers' Retirement System (TRS) actuary indicates this proposal will result in savings equal to 3.4 percent of a Tier V employee's salary base.

Additionally, in line with recent experience, a 2.0 percent annual, general salary increase and 5.0 percent annual turnover rate is reflected in the analysis.

Results

Over the next thirty years, cumulative taxpayer savings outside of New York City from Tier V are expected to total \$32.2 billion. This includes \$7.5 billion in savings for the state government, \$16.6 billion for school districts, and \$8.1 billion for other municipalities and public entities outside of New York City, including, counties, towns, villages, water authorities, and libraries. [See attached charts.]

Within 30 years, annual savings outside of New York City are expected to total \$1.9 billion: \$453 million for the state government, \$1.0 billion for school districts, and \$477 million for other municipalities and public entities outside of New York City.

The City of New York would achieve additional savings through a companion proposal introduced by Governor Paterson at the request of Mayor Bloomberg. The City has publicly estimated savings of \$200 million next year and \$16.3 billion over the next 30 years from these initiatives.

State Government Savings

Fiscal Year	Annual Savings (millions)	Cumulative Savings (millions)
2010	4.5	4.5
2011	20.6	25.1
2012	34.3	59.4
2013	48.5	107.9
2014	63.3	171.2
2015	78.6	249.8
2016	94.5	344.3
2017	111.1	455.4
2018	128.2	583.6
2019	146.0	729.6
2020	164.5	894.1
2021	183.6	1,077.7
2022	203.5	1,281.2
2023	224.0	1,505.2
2024	245.3	1,750.5
2025	267.4	2,017.9
2026	290.3	2,308.2
2027	313.9	2,622.1
2028	338.4	2,960.5
2029	371.5	3,332.0
2030	378.0	3,710.0
2031	386.5	4,096.5
2032	394.2	4,490.7
2033	402.1	4,892.8
2034	410.2	5,303.0
2035	418.4	5,721.4
2036	426.7	6,148.1
2037	435.3	6,583.4
2038	443.9	7,027.3
2039	452.8	7,480.1

School District Savings

Fiscal Year	Annual Savings (millions)	Cumulative Savings (millions)
2009	1.0	1.0
2010	29.2	30.2
2011	58.2	88.4
2012	88.3	176.7
2013	119.6	296.3
2014	152.2	448.5
2015	186.0	634.5
2016	221.1	855.6
2017	257.5	1,113.1
2018	295.3	1,408.4
2019	334.5	1,742.9
2020	375.1	2,118.0
2021	417.2	2,535.2
2022	460.9	2,996.1
2023	506.1	3,502.2
2024	553.0	4,055.2
2025	601.6	4,656.8
2026	651.9	5,308.7
2027	703.9	6,012.6
2028	757.8	6,770.4
2029	811.6	7,582.0
2030	827.8	8,409.8
2031	844.4	9,254.2
2032	861.3	10,115.5
2033	878.5	10,994.0
2034	896.1	11,890.1
2035	914.0	12,804.1
2036	932.3	13,736.4
2037	950.9	14,687.3
2038	969.9	15,657.2
2039	989.3	16,646.5

Other Municipalities Savings (Outside NYC)

Fiscal Year	Annual Savings (millions)	Cumulative Savings (millions)
2009	3.3	3.3
2010	17.9	21.2
2011	32.0	53.2
2012	46.6	99.8
2013	61.7	161.5
2014	77.5	239.0
2015	93.9	332.9
2016	110.9	443.8
2017	128.5	572.3
2018	146.8	719.1
2019	165.8	884.9
2020	185.5	1,070.4
2021	205.9	1,276.3
2022	227.0	1,503.3
2023	248.9	1,752.2
2024	271.6	2,023.8
2025	295.1	2,318.9
2026	319.4	2,638.3
2027	344.6	2,982.9
2028	370.7	3,353.6
2029	391.1	3,744.7
2030	398.9	4,143.6
2031	406.9	4,550.5
2032	415.1	4,965.6
2033	423.4	5,389.0
2034	431.8	5,820.8
2035	440.5	6,261.3
2036	449.3	6,710.6
2037	458.3	7,168.9
2038	467.4	7,636.3
2039	476.8	8,113.1