THE COUNCIL of SCHOOL SUPERINTENDENTS
LEADERS • EDUCATORS • ADVOCATES

SUPPORT

Retirement Contribution Reserve Fund for Teacher Pension Costs

S.4563 (Golden)/A.7353-A (Buchwald)

The Council SUPPORTS this proposal to authorize school districts to establish sub-fund of Retirement Contribution Reserve Fund to offset mandated employer contributions to the New York State Teachers Retirement System.

Under current law, school districts and local governments may use a Retirement Contribution Reserve Account to set-aside funds to pay for anticipated future obligations to the New York State and Local Employees Retirement System (ERS) and Police and Fire Retirement System (PFRS). But school districts are *not* permitted to set-aside funds to for future pension contributions on behalf of the roughly 80 percent of their employees who are members of the New York State Teachers Retirement System (TRS).

Mandated pension contributions from school districts and local governments can vary dramatically from year to year depending on investment earnings which generate most of the revenue retirement systems use to meet benefit obligations. Employees contribute a percentage of their salary that is fixed by law and varies by tier, while the rate employers pay is adjusted annually, rising and falling based on returns on the system's investments and projected benefit obligations.

District costs are determined by multiplying the state-mandated employer contribution rate by the payroll for employees in that system. Consequently a 2 percentage point increase in a contribution rate requires a district to absorb a cost equivalent to giving 2 percent raises to all employees in that retirement system. For 2013-14 salaries, the mandated TRS employer contribution rate rose by 4.39 percentage points. In the last three years, the employer contribution rate has declined to an estimated 9.8 percent for the 17-18 school year. We do not anticipate these decreases will continue much longer which makes this year the perfect opportunity to authorize school districts to save for mandated pension liabilities.

This proposal from the New York State Teachers Retirement System would also set strict annual and total contribution limits that may be utilized for funding future TRS obligations. These caps provide the state, district employees, and taxpayers all necessary assurances that districts cannot abuse this reserve to the detriment of other interested parties.

continued...

NEW YORK STATE COUNCIL OF SCHOOL SUPERINTENDENTS
7 Elk Street ♦ Albany, NY 12207-1002 www.nyscoss.org 518/449-1063 ♦ Fax 518/426-2229

Volatility in revenues also contributes to the need for reserve funds. Increases in School Aid have been strong, on average, for the last four years, but the state's capacity to fund aid increases rises and falls with some of the same factors that drive pension costs. The property tax cap now limits the ability of school districts to raise local revenue; for the coming year the basic tax cap is 1.26 percent, the fourth consecutive year below the promised 2 percent figure.

Authorizing schools to save money to meet future pension obligations helps reduce or avoid the need for either damaging cuts in services and staff or increases in local taxes. In his office's report on five years of school district audits, State Comptroller Thomas DiNapoli recommended school districts be given authority to establish reserves for their TRS obligations.

Again, local governments already possess authority to reserve funds to meet pension obligations for their entire workforce. They also have no percentage limit on unrestricted fund balance. Schools, on the other hand, are not permitted to set-aside funds on behalf of the vast majority of their employees and are limited to an unrestricted fund balance of not more than 4 percent of their budget, despite the fact that they are subject to annual budget votes, a more restrictive tax cap, and greater financial transparency requirements. These pension obligations are not going anywhere therefore to ensure financial stability and sustainability as well as protect taxpayers from large levy increases, a TRS reserve is in the best interest of all.

The Council strongly supports this proposal and urges its approval.