NEW YORK STATE COUNCIL OF SCHOOL SUPERINTENDENTS

MEMORANDUM

Stable Pension Rate

In relation to the 2013 – 2014 Executive Education Budget

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The New York State Council of School Superintendents supports pension smoothing, but is awaiting a TRS and Comptroller independent evaluation of the Governor's proposal to lock in rates for a certain number of years.

The Governor has proposed a creative option to enable school districts and local governments to lock-in a stable employer contribution rate for up to 25 years. The option could allow schools to reduce their Teachers Retirement System costs for the coming year by nearly 25 percent, paying a rate of 12.5 percent, instead of the 16.25 percent projected by TRS.

The Council is awaiting the reviews of TRS and the Comptroller before taking a position on the Governor's proposal. But pension costs are a crushing problem for schools now and are one of the primary factors driving fears of financial insolvency.

There may be other options that deserve consideration, but we acknowledge that the Governor's proposal would provide significant immediate help.

Background on the proposal

Under the proposal, school districts and BOCES would have one opportunity opt-in, but could opt-out at any time by making a "reconciliation contribution" equal to what they would have paid had they not chosen the stable rate option. Each retirement system would be permitted two opportunities to increase their required ECR by up to two percentage points each time, once after five years and again after 10 years.

Retirement systems would be authorized to extend the stable rate period past 25 years if their investments perform poorly, or shorten the period if they do well.

Implementation of the plan would require approval by the TRS board and State Comptroller. TRS has requested a review of the proposal by an independent actuary and the Comptroller is conducting a similar review. We expect TRS review to be completed by March 12, 2013.

Impact of pension costs

School district payments to retirement systems are determined by multiplying the payroll for employees in that system by its employer contribution rate. Consequently, the scheduled jump in the TRS rate from 11.86 percent to 16.25 percent would require districts to absorb a cost equivalent to giving all covered employees raises of nearly 4.4 percent, whether or not they actually provide any raises.

For many districts, the spike in TRS costs is likely to exceed what they would gain in revenue from the Governor's School Aid proposal plus a 2 percent local property tax increase. By offsetting most of the scheduled rate increase, the proposal would have a greater budget impact for most districts than their proposed School Aid increase under the Governor's budget.

Another step – allow reserves for TRS costs

The Governor's proposal is one step, following the establishment of Tier VI last year, to help schools. However, school districts should be allowed to set aside funds for increases in teacher retirement system costs through a TRS Reserve Fund.

Local governments and school districts are authorized to set aside funds in a retirement contribution reserve account in order to prepare for future increases in contribution requirements for ERS. However, roughly 80 percent of school employees are members of TRS. School districts should be given equal treatment with municipalities, allowing them the ability to save for future TRS cost increases and thereby reduce the need to program reductions, tax increases or both.