NEW YORK STATE COUNCIL OF SCHOOL SUPERINTENDENTS

MEMORANDUM OF SUPPORT

Tier VI

In relation to the 2012 – 2013 Executive Education Budget

February 28, 2012

The New York State Council of School Superintendents SUPPORTS Tier VI, and urges its enactment

The Governor's Tier VI proposal would give public employees the choice of either a traditional defined benefit pension or a defined contribution option, similar to 401(k) plans found in the private sector. The budget estimates that Tier VI would reduce pension cost for school districts outside New York City by $25 million in 2012-13.

Pension and health insurance costs have been a pivotal factor in school district budgets and over the last two years, increases in pension costs have roughly matched the average overall increase in proposed spending (i.e., 1.4 percent in 2010-11 and 1.3 percent in 2011-12). The implication is that districts froze all other costs, on balance, to cover pension cost increases.

While pension changes take time to produce large savings for public employers and their taxpayers, the new caps on property tax levies and School Aid growth necessitate reform now, before the situation worsens. The Education Department estimates that districts could face structural deficits averaging 28 percent of expenditures by 2015-16.

The Governor's proposal to give employees the option of a defined contribution plan is a departure from recent state initiatives, however the State and City University professionals have had that choice for nearly 50 years, and roughly three-quarters choose the defined contribution option.

The Federal Bureau of Labor Statistics reports that among employees of medium and large private sector firms nationwide, 54 percent participate in defined contribution plans, while only 30 percent participate in defined benefit plans. School districts are dependent on voter support. When district benefits are significantly out of line with what residents receive, districts risk losing that support, at significant costs to students.

There are legitimate questions to be raised about the growing prevalence of defined contribution plans; they reduce and stabilize costs for public employers and their taxpayers but do so by shifting financial risk to workers and retirees. But if the price of a viable defined benefit plan is to require 12 years for vesting, that threatens to undermine retirement security for those workers who do not stay for the whole span and cannot make up lost time accumulating retirement savings or benefits. Setting such a distant horizon could also contribute to the departure of capable early career teachers and its likely to dissuade some professionals from making mid-career changes into education.

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