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**LIU RELEASES REPORT
ON ESCALATION OF PENSION COSTS**

Poor Market Performance the Biggest Factor in Escalation of Pension Costs

NEW YORK, NY – Retirement Security NYC, New York City Comptroller John C. Liu’s initiative to provide research on public employee pension issues, today released its second report entitled “The \$8 Billion Question: An Analysis of NYC Pension Costs Over the Past Decade.”

Comptroller Liu requested the study to examine the steep rise in annual employer contributions to the Pension Funds over the past decade. Pension cost rose from \$1.2 billion in Fiscal Year 2001 to \$7.7 billion in Fiscal Year 2010. The study was validated by independent actuaries.

“The data challenges widespread notions that overly generous benefits played the leading role in the escalation of City contributions,” Deputy Comptroller for Budget and Accountancy Simcha Felder said. “In fact, the study found that the major factor in the rise in employer contributions to the City’s Pension Funds has been poor market performance. The lower than expected investment returns accounted for 48% of the cost increase.”

The study found that escalation in the employer contributions to the City’s Pension Funds was driven by the following major factors:

- The largest factor was poor market performance which accounted for 48% of the increased cost. It added \$3.1 billion to costs in FY 2010, and accounted for \$15.2 billion over the decade. The lower investment returns this decade stand in contrast to the consistent higher annual returns experienced in the 1980s and 1990s.
- The second-largest factor was benefit increases, which accounted for 44% of the additional cost. It added \$2.4 billion in FY 2010, and accounted for an estimated \$13.7 billion over the course of the decade. It must be noted that almost all of the benefit improvements were enacted in 2000. The benefit improvements enacted after 2000 have been relatively nominal, accounting for about 4% of the increase in pension cost.
- The next largest factor was actuarial losses and revisions in actuarial assumptions and methods, due to a variety of factors including increased longevity, salaries, overtime, disability, early retirement, and buy-backs of service. It added \$790 million in FY 2010, and totaled nearly \$1.7 billion, or 5%, over the 10-year period.

- The last major factor was higher than expected investment and administrative fees, which added \$313 million to expenses in FY 2010, and totaled \$982 million, or 3%, during the decade.

The report also provides information about the Pension Fund reset in 2000, which effectively absorbed \$17 billion of excess investment returns experienced in the prior decade. That reset immediately lowered pension costs by \$1.1 billion annually. However, the reset eliminated the cushion that would have protected against adverse market conditions, which unfortunately materialized in the following years.

“New York City has successfully managed its pension funds for more than a century. While pension reform is needed, radical changes to retirement benefits should not be made based solely on one of the worst decades in market performance,” Comptroller Liu said. “Residents of the City should be proud that in spite of tough economic times, the New York City Pension Funds continue to meet their obligations.”

The current asset value of the New York City Pension Funds is \$114.9 billion, which indicates a 17% percent rate of return fiscal year to date (July 1, 2010 – January 31, 2011).

Download the report here: <http://comptroller.nyc.gov/rsnyc/reports.asp?f=1>

About the Study

The research was conducted by the NYC Comptroller’s Office, using data from the City’s Comprehensive Annual Financial Reports (CAFRs), the actuarial valuations of each of the retirement systems, and fiscal notes issued in relation to benefit enhancement legislation. The study was independently verified by actuaries from the Hay Group.

About the New York City Pension Funds

The New York City Pension Funds include: the New York City Employees’ Retirement System, the Teachers’ Retirement System, the New York City Police Pension Fund, the New York City Fire Department Pension Fund, and the Board of Education Retirement System. As of January 31, 2011 the asset value of the five funds is \$114.9 billion.

About Retirement Security NYC

Retirement Security NYC is a major initiative launched by Comptroller John C. Liu to protect the retirement security of public employees while ensuring the City’s financial health.

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