Senate Passes $48 Billion Pension Reform

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The Senate today approved major reform of the state pension system, a significant step in placing the state's long term finances on a sound fiscal footing. The legislation (S.26) is expected to save taxpayers $48.5 billion over the next 30 years by establishing a new Tier V of pension benefits for public employees. Tier V benefits will apply to newly hired uniformed and non-uniformed employees.

Pension costs are a major – and growing – expense for state and local governments. State Comptroller Thomas DiNapoli has said losses to the New York State Common Retirement Fund due to the current recession will require local governments to increase contributions to the Employees' Retirement System in 2011 by up to 11.9 percent, and to the Police and Fire Retirement System by up to 18.2 percent.

"Today's legislation is an absolute necessity for putting our fiscal house on a sound footing. The Tier V reforms represent a major step forward to help bring pension costs under control," said Democratic Conference Leader Senator John Sampson.

"We have long known about problems in our state pension system, and today we have acted to do something about it. By placing our pension system on a sustainable path, we are saving taxpayers billions of dollars and securing the future for police, firefighters, teachers and hard-working civil servants throughout the state," said Senate President Pro Tem Malcolm A. Smith.

"In these difficult fiscal times, we have been forced to make tough decisions that will restructure the economic landscape for the benefit of state government's long-term financial solvency. We achieved this today by enacting fundamental reform of the state pension system that will save taxpayers billions of dollars, reduce state expenditures, and secure the retirement benefits of all public employees in the state of New York well into the future," said Senate Majority Leader Pedro Espada, Jr.

The Tier V legislation lowers long-term costs to state and local governments by establishing a cost-effective benefit structure and capping the amount of overtime that can be used in calculating pension benefits. Pension payments are traditionally based on an employee's final average salary.

The new pension plan for all new employees who are members of the New York State and Local Retirement/Police and Fire Retirement System will:

- Require a three percent member contribution for the length of service;
- Require ten years of creditable service to vest with the retirement system; and
- Cap overtime wages that can be used in calculating the final average salary at 15 percent of regular annual wages.

This will not apply to newly hired New York City police and fire retirement system members.

In addition, the legislation establishes a Tier V plan for members of the New York State and Local Retirement System/Employees Retirement System hired on or after January 1, 2010. The plan will:

· Limit the amount of overtime that can be used in calculating final average salary. The overtime ceiling would be $15,000 annually starting January 1, 2010, and would increase by three percent annually;
· Require ten years on the job to vest with the retirement system;
· Increase the penalty for retirement before age 62 to a maximum of 38 percent; and
· Raise the minimum retirement age to 62.

The Tier V plan for the New York State Teachers' Retirement System for employees hired on or after January 1, 2010, will:

· Require ten years on the job to vest with the retirement system;
· Raise the minimum retirement age to 57 with thirty years on the job;
· Make permanent retiree health insurance protections; and
· Allow for an early retirement incentive.

The bill also reforms benefits for new employees of the New York City Teachers' Retirement System and the New York City Board of Education Retirement System who are represented by United Federation of Teachers. The plan will:

· Require ten years on the job to vest with the retirement system;
· Require 4.85 percent annual member contributions to the retirement system for the first 27 years of credited service and 1.85 percent annual member contributions for service beyond 27 years; and

- Fix a seven percent interest rate on the tax-deferred account in the annuity savings fund of participants.