New York City Independent Budget Office

Director Louisa Chafee

Changes to Funding New York City Pension System Unresolved in Albany

Proposed Legislation

New York City has five retirement systems: New York City Employees' Retirement System (NYCERS), New York City Teachers' Retirement System (TRS), New York City Board of Education Retirement System (BERS), New York City Police Pension Fund (Police), and New York City Fire Pension Fund (Fire). On February 20, 2025, Governor Hochul proposed amending New York State law in the Fiscal Year 2026 Executive Budget to alter NYCERS, TRS, and BERS in three ways.

First, the proposed legislative changes would modify the Administrative Code of the City of New York to allow for the City's amortization, or repayment, of the pension systems' unfunded accrued liabilities (UAL) on an alternative, longer schedule. The UAL is the difference between the estimated cost of future benefits owed to pensioners and the present value of future assets set aside to pay for these benefits. The legislation specifically called for a "Fresh Start" or re-amortization of each plan's UAL using a 20-year ramp in which annually scheduled payments decrease by a constant amount until zeroing out.

Secondly, it would modify the City's approach to smoothing out investment gains or losses. Currently, the City phases in investment gains or losses over a five-year period. This requires tracking the market value of its assets (MVA) as well as the hypothetical value of the MVA smoothed over a five-year period, termed the actuarial value of assets (AVA). The proposed legislative changes would allow for gains or losses to be recognized immediately and then subsequently amortized, eliminating the need to value assets in two different ways. This would yield simpler and more transparent valuations.

Finally, it would allow the New York City Office of the Actuary to reset or initialize a "Fresh Start" an amortization schedule on a 20-year period when the MVA of a plan indicates it is overfunded or if there are any anomalies with each plan's amortization schedules.

These changes were included in the State Assembly one-house budget proposal but not in the State Senate proposal. These changes were ultimately not included in the 2026 State Enacted Budget. These or other changes could be taken up later in the legislative session or

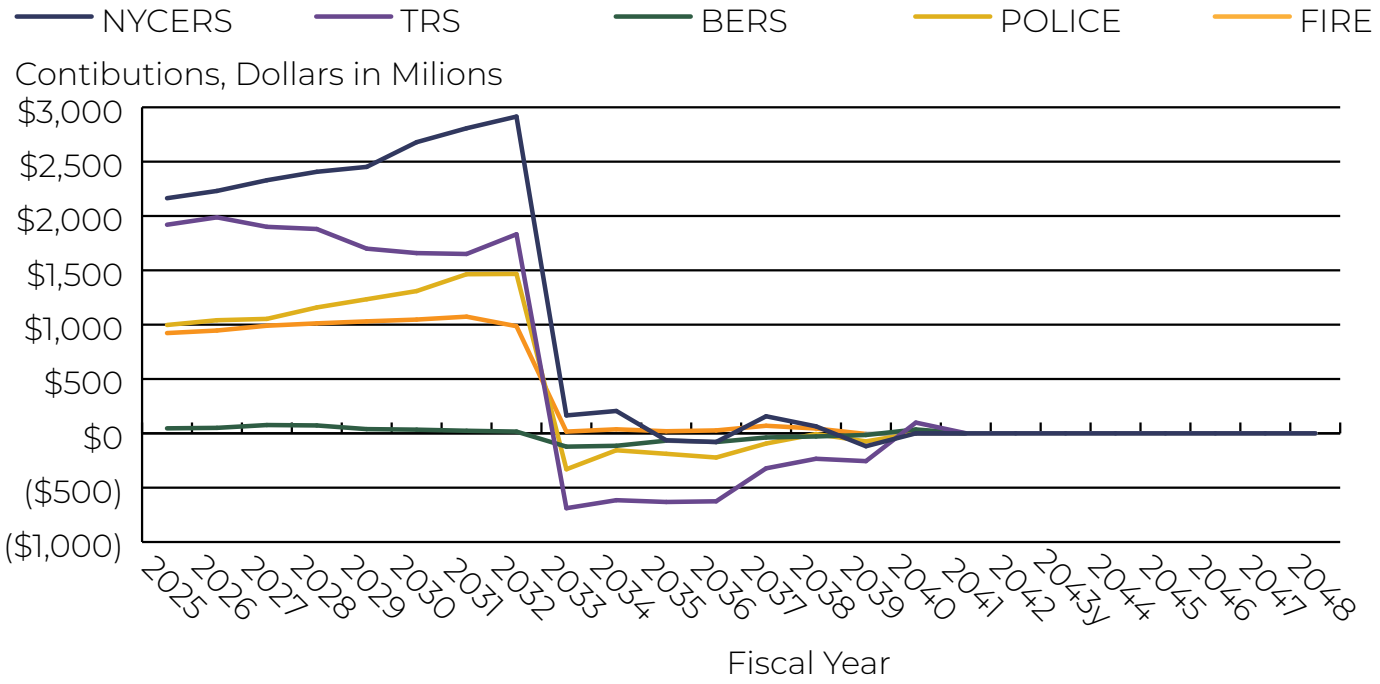
in future years. Given the fiscal implications changes to the pension payments would have for New York City—especially as the City faces the potential loss of federal funding and slowing tax revenue growth—debates around the current funding setup for these three pensions are expected to be ongoing.

The Contribution Cliff

Currently, the pension systems' scheduled UAL amortization payments increase annually from total contributions of around $6.0 billion in fiscal year 2025 until peaking at $7.2 billion in fiscal year 2032.[1] However, this peak in total contributions in fiscal year 2032 is immediately followed by a sharp decline in contributions such that the scheduled contribution in fiscal year 2033 would instead be a credit to the City of $961.3 million. This sharp decline in contributions from fiscal years 2032 to 2033 has been termed the "contribution cliff" by the City Comptroller and others. The City's pension systems will all be fully funded upon reaching the contribution cliff. Figure 1 shows the contribution decline for each of the five pension systems. The decline in required contributions between fiscal years 2032 and 2033 across all five pension systems totals $8.2 billion. Figure 2 shows the funded status for each pension plan for both New York City and New York State as of fiscal year 2024 as well as the national average as of fiscal year 2022.

Figure 1

Current Amortization Schedule



SOURCE: New York City Office of the Actuary
NOTE: Dollars reflect the actuarially adjusted present value of the City's UAL.

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FIGURE 2

Funded Ratios of New York City and State Pension Plans Compared to the National Average

Plan (Entity)	Funded Ratio
NYCERS (New York City)	84.25%
TRS (New York City)	85.71%
BERS (New York City)	97.43%
POLICE (New York City)	89.30%
FIRE (New York City)	75.80%
ERS (New York State)	93.88%
PFRS (New York State)	89.72%
National	62.04%

SOURCES: New York City Annual Comprehensive Financial Report, New York State & Local Retirement System Annual Comprehensive Financial Report, and Federal Reserve State and Local Government Pension Funding Status 2002-2022

NOTES: New York City and State data is reported as of Fiscal Year 2024. National data is reported as of Fiscal Year 2022.

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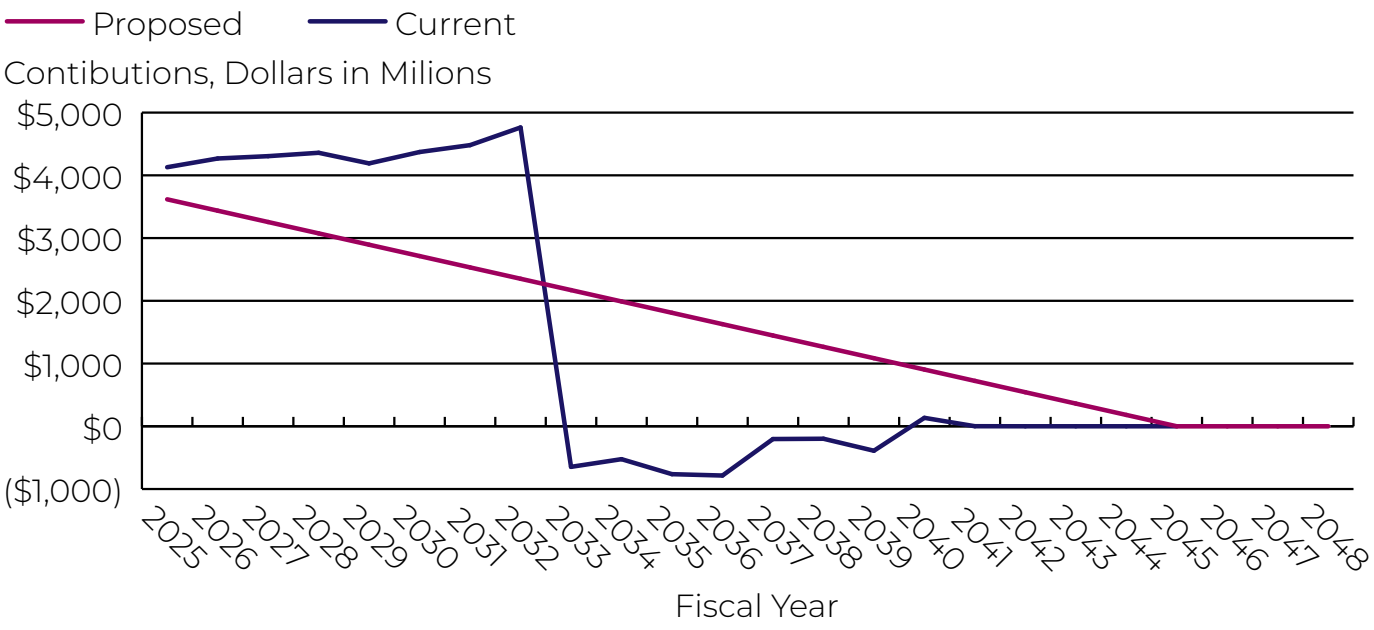
Fresh Start 20-Year Ramp Proposal

The proposed State budget language would have changed the amortization of the UAL using a 20-year ramp for NYCERS, TRS, and BERS. This 20-year ramp would see each year's scheduled contribution decrease by a constant amount representing 5% of the initial contribution, until zeroing out in fiscal year 2044. The 20-year ramp, unlike the current schedule, avoids the sharp decline in the current schedule by having contributions gradually decline instead of dramatically dropping in the span of a year. Figure 3 shows the smoothing effects the proposed legislation would have on the relevant plans.

Figure 4 compares the current UAL contribution schedule with that which would have taken effect under the proposed

Figure 3

20-Year Ramp "Fresh Start" Schedule for NYCERS, TRS, and BERS



SOURCE: New York City Office of the Actuary
NOTE: Dollars reflect the actuarially adjusted present value of the City's UAL.

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FIGURE 4

Current Contribution Schedule Compared with Proposed Contribution Schedule

Fiscal Year	Current Contributions	Proposed Contributions	Difference
2025	$6,048,821,031	$5,537,076,448	$511,744,583
2026	6,255,051,763	5,423,419,053	831,632,710
2027	6,348,847,812	5,299,034,783	1,049,813,029
2028	6,529,702,434	5,245,149,896	1,284,552,538
2029	6,454,290,218	5,158,262,783	1,296,027,435
2030	6,727,405,569	5,069,044,065	1,658,361,504
2031	7,018,736,470	5,069,875,482	1,948,860,988
2032	7,215,470,951	4,804,203,798	2,411,267,153
2033	(961,320,252)	1,855,713,670	(2,817,033,922)
2034	(642,775,344)	1,870,945,242	(2,513,720,586)
2035	(932,464,508)	1,639,543,536	(2,572,008,044)
2036	(980,868,413)	1,432,000,625	(2,412,869,038)
2037	(227,711,237)	1,422,609,434	(1,650,320,671)
2038	(160,712,097)	1,303,961,271	(1,464,673,368)
2039	(469,701,607)	1,005,420,226	(1,475,121,833)
2040	135,705,252	905,598,772	(769,893,520)
2041	1,117,499	723,498,993	(722,381,494)
2042	-	542,624,244	(542,624,244)
2043	-	361,749,496	(361,749,496)
2044	-	180,874,748	(180,874,748)
2045	-	(0)	0
Total	**$48,359,595,541**	**$54,850,606,565**	**($6,491,011,024)**

SOURCE: New York City Office of the Actuary
NOTE Dollars reflect the actuarially adjusted present value of the City's UAL.

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legislation. As Figure 4 shows, the proposed 20-year amortization schedule would have seen the City's scheduled contributions decrease relative to its currently scheduled contributions from fiscal years 2025 to 2032. The proposed schedule would have extended payment of the UAL to 2044, thereby avoiding the current schedule's contribution cliff in 2033.

However, the proposed adjustments to the amortization schedule timeline would have increased the total amount the City would be required to contribute from 2025 through 2044. The current amortization schedule requires the City to contribute a total of $48.4 billion through 2045 while the 20-year ramp amortization schedule would require the City to contribute $54.9 billion through 2045. (Both of these dollar totals reflect the actuarially adjusted present value of the City's UAL.) The difference between the total contribution amounts is due to the extra years of contributions needed so that both amortization schedules have the same present value. If the proposal would have been expanded to apply to the Police and Fire retirement systems' UAL amortization too, the City's total contributions through 2044 would be $57.7 billion.

Re-Amortization Tradeoffs

Budget Tradeoffs

The management of the pension systems' UAL requires considering various tradeoffs. Any alternative UAL amortization schedule is required to have the same present value of total contributions as the current schedule in place.[2] Therefore, the proposal to extend the UAL amortization period would have reduced the City's annual contributions towards UAL amortization but over more years to yield the same present value. Because amortization is done using an assumed interest rate, there are no ultimate savings or costs expected for the pension systems. Every dollar contribution that the City defers must ultimately be paid at a later date and at a higher rate. Adjusting the UAL amortization schedule requires consideration of the budgetary tradeoffs this option presents.

Intergenerational Tradeoffs

Concerns around balancing active employee contributions and retired employees collecting benefits arise due to the blended nature of pension funding. This is termed intergenerational equity in actuarial contexts. Both City employees enrolled in a pension system and the City contribute funds to the pension systems and the pension systems simultaneously make payments to retirees. A system that is perfectly equitable across generations would be one where each cohort of retirees' pension costs would be funded while those employees are working. This would contrast with a situation where future City employees and City budgets cover the pension costs of current City employees when they are in retirement.

Because an employee's working lifetime spans many years, the effects of inflation could see their contributions yield less than expected investment returns over time, while periods of booming investment markets can yield returns that exceed expectations. A pension plan that is intergenerationally equitable will see combined City and individual contributions which roughly matches the working lifetime of said employee.[3]

This goal of intergenerational equity can be evaluated on a fund-wide level through an actuarial forecast, where each pension systems' assets are allocated to retirement benefits. First, assets would be earmarked for the cost of benefits for current retirees, starting with

the oldest to the youngest. Then, remaining assets would be assigned to current employees enrolled in the pension systems from oldest to youngest.

Since most retirement systems, apart from BERS, are not 100% funded at present, the actuarial forecast process described above would end with some of the youngest current employees left with their retirements unfunded. The average age of this cohort of unfunded actives can be compared with their average future working lifetime and the years left on plan amortization schedules. For example, conducting an actuarial forecast process for NYCERS' current UAL schedule identifies a cohort of around 110,746 unfunded active employees out of 180,354 active employees.[4] Because there are nine years until the current contribution schedule reaches the 2032 contribution cliff and this cohort of unfunded actives has an average future working lifetime of 17 years, the current amortization is 8 years ahead of schedule. Adjusting the UAL amortization schedule also yields tradeoffs with respect to intergenerational equity.

Market Volatility Tradeoffs

Lastly, there are tradeoffs when considering the volatility of funding contributions to the pension systems. As current employees enrolled in a retirement system earn higher salaries, this translates to a higher pension payout when they retire. Simultaneously, the assets invested for those employees' retirement will grow over time. Potential mismatches in the growth of liabilities and assets can create a level of unpredictability. Relatively small hits to investment assets can create a sizable gap between the ever-rising liabilities and the assets—a gap that the City is ultimately required to cover.

The Office of the Actuary calculates this volatility risk level. First it projects the potential range of required contributions over a ten-year period and then calculates the probability that contributions will land in the highest quartile of the contribution range. With regards to the current legislation, the Office of the Actuary calculated that risk for NYSCERS landing in this top quartile was 25% under the current schedule and 12% under the 20-year ramp fresh start.

Changes to Asset Smoothing Methods

The proposed legislation would have changed the City's approach to phasing in investment gains and losses into pension plan valuations. Currently, any investment gains or losses are phased into the pension plan valuations over a five-year period. This method requires the tracking of two separate valuations for each pension fund's assets, the market value of assets (MVA) and the actuarial value of assets (AVA). The former is used to determine each year's investment gains or losses while the latter is used to determine the UAL and contributions. The AVA can be higher or lower than the MVA, with a maximum difference of 20% around the MVA's value but is equal to MVA when the Actuarially Assumed Interest rate of 7% is met exactly.

The proposed legislation would have altered how the AVA is calculated by fully recognizing investment gains or losses immediately and then having the subsequent amortization payments phased in over a five-year period, maintained at a level dollar amount for several

years and phased out over a similar five-year period. This has the effect of phasing in or smoothing of investment gains or loses without having to track two sets of assets and their funding percentages. Furthermore, by eliminating the AVA, the 20% corridor around the MVA would be eliminated and large investment gains or losses could be fully phased in without limitations from this buffer. Similar to how the re-amortization of UAL works, this revised asset smoothing method would see loses or gains incorporated over an extended period compared to the original method but the net present value of these gains or losses will be equivalent.

It should be noted that Govenor Hochul proposed legislation would have only applied to new investment gains or losses. Previously recognized investment gains or losses would have continued to be recognized according to the current schedule.

Conclusion

Amortization schedules can be adjusted in a variety of ways, such as what was proposed in Albany, or a version that also includes the Fire and Police pension systems, or different timelines for the smoothing period. Many combinations of changes would be valid, provided that the present value of contributions is equal across fiscal years, equal in totality, and follows accounting rules for the timeline of the repayment of the UAL. Present throughout is the inherent tradeoff of paying less in contributions in the short term but paying more in total, or vice versa.

The decision of whether to address or not address the contribution cliff requires some level of tradeoffs around time and money. The proposed legislation would have shrunk annual payments into the pension system, freeing up money annually for the City to use elsewhere, but extending those payments over a longer period of time. With signs of waning economic growth and real risks to longstanding federal funding sources, the City's fiscal outlook may face challenges in the near term. Being able to move money from pension contributions to other areas of spending may have a strong appeal for lawmakers. Yet extending payments out over time means that the City will spend more money overall to fully fund these pension systems. There are also tradeoffs related to market volatility risk and intergenerational equity that will need to be considered whether an alternative amortization schedule is adopted or not.

If left unchanged, however, the contribution cliff will be reached in 2033, freeing up billions of dollars that the year before would have been needed for pension contributions. The Mayor and the New York City Council at that time will suddenly have an additional pot of money to spend in their budget planning, that was not available to previous administrations during the years the City was legally required to make contributions.

Endnotes

[1] Data provided by the NYC Actuary's office to IBO.

[2] The proposed State legislation seeks to amend the current Amortization schedule.

[3] The minimum number of years an employee enrolled in a retirement plan must pay in contributions before being eligible to receive a pension in retirement varies by plan and by tier.

[4] Data provided by the New York City Office of Actuary to IBO.

Prepared By:
Gianpaolo Defelice

110 William Street
Suite 1401
New York, NY 10038

www.ibo.nyc.gov