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Before the Senate Civil Service and Pension Committee
October 11, 2023

Workforce retention and recruitment challenges are not limited to New York state government but are widely shared, to varying degrees for different occupations, throughout the public and private sectors. These challenges are rooted in a broad demographic trend that has been unfolding in predictable fashion for decades now—the aging of the Baby Boomers.

To use thr indelicate phrase of a recent *Washington Post* article, the generation born from 1946 to 1964 has "worked through the American labor force like a big meal inside an anaconda" over the past 50 years.[1] But this aging-out process also is now entering its final stages.

Here in New York, the number of state government employees eligible for full-benefit retirement in the next five years—reaching age 55 after 30 years of service—is projected to drop this year to 14,860, from 16,237 a year earlier, according to the Department of Civil Service. Ten years ago, the state's retirement-ready cohort was nearly twice as large, at 26,950. The average state worker age this year will be 46, two years younger than a decade ago. New hires will have an average age of 34, three years younger than in 2013. The average age at retirement is projected at 61, up two years from 2013.[2]

The pension fund's statistics reflect broader demographic shifts in the government workforce. Twenty years ago, the New York State and Local Retirement System (NYSLRS) had roughly 535,000 active members, while supporting 313,000 retirees and their beneficiaries — a ratio of 1.7 to one. Ten years later, those figures remained basically unchanged. By fiscal 2023, for the first time ever, NYSLRS had slightly *more* retirees and beneficiaries (514,629) than active members (514,120). We can expect that relative trend to continue for some time to come.

Despite the growing number of retirees, New York State's main public pension plans remain among the best-funded in the country, by public-sector standards. But keeping New York's pension plans well-funded—ensuring retirement security for their members—has been a very expensive proposition for New York taxpayers.

Between 2000 and 2010, combined annual employer contributions to New York's state and local pension systems increased tenfold, from $1 billion to $10 billion. By 2017, total contributions had reached nearly $17 billion in 2015. After levelling off at roughly $16 billion in recent years, pension costs are headed up again, in large part reflecting volatile ups and downs in the stock market since 2020.[3]

To make up for last year's investment losses by the New York State Common Retirement Fund, the state comptroller recently announced that tax-funded employer contribution rates will need to rise by 15 percent for members of the Employer Retirement System, and by 12 percent for members of the Police and Fire Retirement System. For the state government alone, these rate increases will add $500 million to fiscal 2025 pension costs, which are projected to rise by another $1.4 billion by fiscal 2027. In New York City, the budgeted pension fund contribution is up more than $500 million this year over last, and is projected to rise another $1.2 billion by 2027.

These numbers would be considerably higher if not for pension reforms enacted by the Legislature starting in 2009. The Tier 5 and Tier 6 changes—covering employees first hired in 2010 and 2012, respectively—are saving New York state and local governments (not including New York City) more than $1 billion this year, reducing total employer contributions by more than 15 percent compared to what would have been billed to cover workers under previous plans. By the same token, reversing the tier 5 and 6 changes would increase costs by $1 billion year or more, and by billions more by the early 2030s.

Tier 5 and 6 reintroduced employee contributions to the pension fund, and also ended early retirement at age 55 while altering some multiplier formulas in a way that slightly reduce benefits for long-term retirees. Nonetheless, pension benefits for post-2010 state and local government hires remain far more generous than those available from the few traditional defined-benefit (DB) pension plans still offered by any private employers.

In fact, less than one in five private workers has access to <u>any</u> employer-sponsored DB pension plan. In the private sector, DB pensions have been largely replaced by the defined contribution (DC) model, such as 401(k) accounts, supported by a combination of pretax employer and employee contributions. Retirement income from such accounts depends on how much is saved and how much the money earns when invested in stocks, bonds, or other financial instruments, typically managed by an investment bank or insurance company at the individual employee's direction.

From the employee's perspective, the principal appeal of a defined-benefit pension plan is the promise of a retirement benefit pegged to career peak earnings, paid out in predictable monthly installments. And while private pension plans can dry up, the appeal of public-sector plans is the added security—especially in New York, where pensions are effectively guaranteed by the state Constitution and supplemented by Social Security benefits.

However, New York's DB plans also have two principal shortcomings.

First, they expose taxpayers to open-ended financial risk. When pension fund investment returns falter, as they have done several times since 2000, it is the taxpayers and not employees who must make up the difference.

A second shortcoming of the DB model is its deliberate bias in favor of long-term and full-career government workers—reserving higher salary multiplier rates for those with 20 or more years of service credit. Employees who fail to reach the five-year vesting point receive no pension, and benefits accrue at lower rates for those who devote less than half their careers to government service.

Third, defined-benefit pensions are not portable for the employee. State-employed DOT engineers, or nurses at a state hospital, or public-school teachers, or other agency employees who take similar jobs in another state can no longer build on pension benefits accrued in New York, even after a five-year vesting period.

In an era when younger workers have shown themselves more willing than ever to changing employers, or change occupations, or both, limiting the state government's retirement benefit offering to a defined-benefit pension with a pronounced bias in favor of lifetime careers is <u>not</u> a recruiting advantage—if anything, quite the opposite.

Fortunately, thanks to the reform of a decade ago, you have at hand a ready-to-go model for a better approach. Beyond its changes to existing defined benefit plans, the Tier 6 legislation also created a new Voluntary Defined Contribution (VDC) Program, modeled on the Optional Retirement Plans offered since 1964 to employees of the State University of New York and City University of New York.

Typical private-sector 401(k) plans have been rightly criticized for too often combining low and possibly intermittent employer contributions with high investment fees. However, the VDC is built to conform with Section 401(a) of the Internal Revenue Code, which covers the government sector. While 401(k) contribution levels can fluctuate at the discretion of both employers and employees, contributions to a 401(a) plan are fixed by the employer. Employers and employees cannot choose to opt out of making their full required contributions.

Another difference between a standard 401(k) plan and New York State's 401(a) VDC plan is the form of the investment vehicle offered. In 401(k) accounts, employees choose among a range of professionally managed mutual fund investments in stocks, bonds, or money market instruments. Employees can directly manage their own accounts through plan administrators and draw on the accumulated investments at retirement.

Participants in the optional SUNY and CUNY plans must deposit their funds in annuity contracts. These investment vehicles, managed by insurance companies, are designed to accumulate wealth and provide a stream of income after retirement, much like a traditional pension. While 401(k) plans tend to focus mainly on wealth accumulation alone, the focus of annuity-based plans is more on retirement income.

The VDC program has been available as an alternative to the traditional DB plan for all non-union state and local employees hired since June 30, 2013, at salaries of $75,000 or more. Employee contributions to the VDC are pegged at the same levels as in the Tier 6 pension plan—ranging from 3 percent to 6 percent of salary, depending on total annual wages. The employer contribution is a flat 8 percent of gross wages—roughly equivalent to the theoretical long-term "normal" employer rate for Tier 6, but barely half of what will be the average billed rate for ERS members in fiscal year 2024-25. Among 401(k) plans, by contrast, average contribution rates were 7.4 percent for employees and 3.9 percent for employers.

The defined-contribution plans vest after one year, and there is no minimum retirement age; rather, distributions from annuity contracts are permitted any time after separation from services, subject to an IRS penalty for distributions prior to age 59 and a half. Since mid-2013, the VDC option has been chosen by a total of 4,681 state and local employees, including 4,325 currently active participants. They can choose from among four different providers, all of which charge combined management and investment fees well below the norm for variable annuities. Total program contributions to date exceed $236 million.[4]

The plan has been especially popular in public authorities and government health care institutions employing large numbers of higher-salaried, non-union professionals and technicians who have significant private-sector experience. Among state government agencies, the Attorney General's office has had the most VDC enrollees with a total of 367, including 30 percent of the 775 assistant attorneys general who were on the A.G. staff at any point last year. The VDC also has enrolled a total of 58 state legislative staffers, 15 Assembly members, and 7 state senators—a non-negligible share of those elected since 2013 who were not already members of the state or city DB pension system and thus ineligible for the new plan.

To improve the appeal of working for the state or local government, the Legislature should expand the Voluntary Defined Contribution plan to a much wider array of employees, union as well as non-union, starting with teachers and members of hard-to-fill occupations requiring advanced degrees or technical training. As an added retention feature, the employer match under the VDC plan should be raised to 10 percent of gross salary after seven years of service, as is already the case in the SUNY plan.

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1 Alyssa Fowers and Kevin Schaul, "The Boomers are Retiring. See why that's bad news for workers," Washington Post, July 1, 2023. https://www.washingtonpost.com/technology/interactive/2023/aging-america-retirees-workforce-economy/

2 Data from annual Workforce Management Reports of the Department of Civil Service

3 E.J. McMahon "Tiering Up: The Unfinished Business of Public Pension Reform in New York," Empire Center for Public Policy, December 2021. https://www.empirecenter.org/publications/tieringup/

4 New York State Voluntary Defined Contribution Program, Quarterly Executive Summary, June 30, 2023