NYS Senate Public Hearing: To discuss retention and recruitment for civil service jobs in New York State and the New York State Pension Fund

Written Testimony of Executive Deputy Comptroller Colleen C. Gardner on Behalf of the Office of the State Comptroller

New York Senate Standing Committee on Civil Service and Pension

Chair Senator Robert Jackson and distinguished Committee members:

It is without question that the public sector across the country is experiencing labor shortages and that the recruitment and retention of experienced and diverse employees is vital to the stability of our civil service workforce. Enhanced recruitment efforts, wages, job satisfaction, and benefits are some of the primary areas ripe for discussion and consideration by stakeholders. We are facing the same challenges here, in the Office of the State Comptroller, as our colleagues are in other State agencies.

Studies have confirmed our experience that retirement and healthcare benefits are critically important job features to public employees. A national poll and analysis conducted by the National Institute on Retirement Security (NIRS) in 2019 found that these benefits are viewed as a powerful recruitment and retention tool, with nearly all state and local workers (93 percent) saying that pensions incentivize public workers to have long public service careers, and 94 percent agreeing that a pension is a good tool for both attracting and retaining employees.

NIRS followed up with a study that focused on Millennials' views in February 2020 (pre-COVID pandemic) and found that Millennials working in state and local government are satisfied with their jobs and intend to stay with their employers so long as their benefits are not cut. Millennials working in state and local government are highly supportive of pensions, and they see the advantages of their benefits beyond retirement.

More recently, a 2021 national survey analyzed by NIRS found that Millennials and Generation X are more worried about retirement as compared to prior generations. Sixty-four percent of Millennials and 54 percent of Generation X are more concerned about their retirement security in the wake of the COVID-19 pandemic. All generations polled had favorable views of defined benefit pensions, with Millennials holding the most favorable views. There is wide agreement generationally that pensions are better than 401(k) plans for providing retirement security.

With respect to retirement benefits, the New York State Common Retirement Fund (Fund) is one of the largest public pension funds in the United States. The Fund holds and invests the assets of the New York State and Local Retirement System (NYSLRS) on behalf of more than 1.2 million State and local government employees, retirees and beneficiaries. We serve close to 3,000 public employers and over 695,000 members and 470,000 retirees and beneficiaries. The number of NYSLRS' members, retirees, and beneficiaries has increased by 14 percent over the last decade as yearly retirements have grown. Last year we added over 29,000 new retirees and beneficiaries and paid out $15.5 billion in benefits.

The pension money that our retirees and beneficiaries receive flows directly back into our communities, stimulating and growing our local economies. Nearly 400,000--over 79 percent--NYSLRS retirees and beneficiaries live in New York State. It is estimated that during 2021, NYSLRS retirees were responsible for $15.2 billion in economic activity in New York State. Spending by NYSLRS retirees and beneficiaries generated an estimated $743 million in State and local sales taxes. In 2021, retirees and beneficiaries paid more than $2 billion in real property taxes — that's 3.1 percent of the total collected in New York although they represent 2 percent of the State's population. In some areas of the State, the figure is even higher. In the North Country, retirees paid 8.1 percent of the property taxes collected, and in the Capital District, retirees paid 9.3 percent.

Our State Comptroller, Thomas P. DiNapoli, as trustee of the Common Retirement Fund and administrator of NYSLRS has a fiduciary duty to the retirement system and its members. NYSLRS is consistently ranked among the nation's best funded retirement systems. The Fund's professional managers take a disciplined, risk-controlled investment approach focused on sustained, long-term results. This has allowed the Fund to take advantage of investment opportunities in good times and cushion it against market downturns. Like all investors, the Fund has faced challenges this year. Keeping the Fund well-funded is critical in guaranteeing the retirement security of current and future retirees, avoiding escalation of costs to State and local employers (and the direct economic impact of these costs on the local communities), and preventing the crises that have undermined less well-funded plans across the country. Fortunately, due to this long-term perspective, it remains well-funded and the benefits of public workers are secure.

At the close of the State Fiscal Year (SFY) March 31, 2023, the audited value of the Fund was $248.5 billion, which was a negative 4.14 percent return. NYSLRS had a funded ratio of 90.3%, which was lower than the previous fiscal year. Our system is funded by investments, and employer and employee contributions. On average, 75% of pension costs are funded by our investments. When investments are lower than our expected rate of return of 5.9%, employers must make up the difference. To help ensure that public workers and their families can rely upon their retirements benefits, employers' average contribution rates for SFY 2024-25 will increase from 13.1% to 15.2% of payroll for the Employees' Retirement System (ERS) and from 27.8% to 31.2% of payroll for the Police and Fire Retirement System (PFRS).

The good news is that our Fund value increased and had an estimated value of $254.1 billion at the end of the first quarter of SFY 2023-24. For the three-month period ending June 30, 2023, Fund investments returned an estimated +3.08%.

As policymakers consider the retirement benefits of retirees, current members, and prospective members, it's important to balance the benefit package with the cost to employers. There are 2,979 participating employers in NYSLRS, with the State being the largest employer among county, city, town, village, school districts, and other (like water and sanitation district) employers.

The economic crisis brought on in 2007-09 resulted in a significant downturn in the markets and a decrease in the value of our Fund. State and local governments saw their revenues plunge. Two new tiers of retirement benefits--Tier 5 was created in 2010 and Tier 6 in 2012—were established with less generous benefits in an effort to lower employers' pension contributions. While many sacrifices were made in the wake of the Great Recession, many say it's time to reevaluate the changes and are advocating for parity among the tiers of benefits.

Although NYSLRS does not typically take a position on proposed adjustments to benefits in retirement legislation, we urge the Legislature to ensure that any benefit enhancements are sufficiently funded to account for the fiscal impact of any adjustments on employers and the health and stability of the Fund. Adjustments to benefits have an associated cost depending on the nature of the enhancement. Under State law, any change in the Retirement and Social Security Law requires our Actuary to issue a fiscal note estimating the immediate and future cost of benefit improvement. As an example, in the SFY 2022-23 Enacted Budget, vesting for Tiers 5 and 6 was reduced to five years from ten years. This benefit improvement was estimated to increase the value of pension benefits by $430 million dollars, for existing Tier 5 and Tier 6 members as of 4/1/2022. To fund the benefit improvement, it is estimated that employers contributed an additional $81 million in contributions for the FYE 2023, and an additional $85 million for the FYE 2024. We anticipate collecting an additional $92 million in contributions from employers in 2025 and an additional $96 million in employer contributions in 2026 as we continue to fund this benefit improvement annually. These costs will continue to grow each year as membership in Tier 6 increases. The SFY 2022-23 Enacted Budget also provided for a temporary reduction in the contribution rate for Tier 6 members who worked overtime during the COVID pandemic. These two legislative changes resulted in a 0.4 increase in the employer contribution rate annually.

NYSLRS' actuaries have provided fiscal notes for many other legislative proposals that would amend the benefits provided to Tiers 5 and 6. We stand ready to assist the Legislature with this expertise in the upcoming session.

The guarantee of a defined benefit pension is a vital consideration in the retention and recruitment of public employees. Today, as state and local governments are struggling to attract and retain employees to deliver vital services, pensions are more important than ever to all workers no matter their age. New York State's pension fund remains one of the strongest pension funds in the nation and our high funding ratio means NYSLRS has the funds available to pay out retirement benefits to the more than 1.2 million members that we have the privilege to serve. Once again, although our Office does not typically take a position on proposed adjustments to benefits in retirement legislation, we ask the Legislature to remain mindful of and account for the financial impact of any alterations on affected retirees, members, employers, and the State's economy.