

Q&A:

New York State's Tier VI Pension Plan

New York State recently added a new Tier VI to its employee pension plans. Tier VI took effect for all newly hired public employees on April 1, 2012.

The New York State School Boards Association has provided answers to some FAQs on how the law affects school districts with employees in the New York State Employees Retirement System (ERS) and New York State Teachers Retirement System (TRS).

Q: Why was Tier VI enacted?

A: Pension costs are one of the fastest growing expenses for state and local governments. New York schools collectively experienced an increase of more than 800 percent in pension costs from 2001 to 2011. The new pension tier is expected to save public employers outside of New York City an estimated \$60 billion over 30 years.

Q: What are the main differences between Tier VI and existing pension plans?

A: Tier VI introduces a number of changes, including a higher retirement age, increased employee contributions based on salary, and a different calculation of final average salary that will help decrease pension padding. These measures will help reduce pension costs for state and local governments.

Q: What is the retirement age for employees in Tier VI?

A: Employees are eligible for an unreduced service retirement benefit at age 63, up from age 62 in Tier V. Employees may retire as early as age 55 if they meet the minimum service requirement, but their payment would be reduced by 6.5 percent for each year under age 63.

Q: When do Tier VI members become vested in the state pension system?

A: Employees become vested after 10 years of credited service, the same as in Tier V.

Q: How much must new employees contribute toward their pension under Tier VI?

A: Employees will contribute between 3 and 6 percent of their annual salary based on the schedule below:

WAGES EARNED	CONTRIBUTION RATE
\$45,000 or less	3.0%
More than \$45,000 up to \$55,000	3.5%
More than \$55,000 up to \$75,000	4.5%
More than \$75,000 up to \$100,000	5.75%
More than \$100,000	6.0%

Q: What is the retirement benefit under Tier VI?

A: Employees who retire at age 63 with fewer than 20 years of service will receive 1.67 percent of final average salary times years of service. Employees who retire at age 63 with 20 or more years of service will receive 1.75 percent of final average salary times years of service up to 20, and 2 percent of final average salary times years of service in excess of 20.

Q: Tier VI includes a "defined contribution" option. To whom does it apply?

A: New non-unionized members earning \$75,000 or more who first join public retirement on or after July 1, 2013 have the option of joining an existing Optional Retirement Program defined contribution plan. The annual employer contribution rate for employees in the defined contribution plan would be 8 percent. The employee contribution would be the same as for ERS and TRS.