Q&A: New York State's Pension Smoothing

Pension contributions represent a significant part of a school district budget, and they are projected to rise over the next several years. State lawmakers recently enacted a law that will allow school districts to pay their pension obligations over several years, rather than in the year they are accrued.

The New York State School Boards Association has provided answers to some frequently asked questions to help explain the new "pension smoothing" law.

Q: What is the impact of pensions on school districts?

A: The New York State Teachers' Retirement System (TRS) announced in February that its required employer contribution rate would rise from 11.84 percent to 16.25 percent in 2013-14 (a 4.41 percentage point increase). The contribution rate is the percentage of total salary of members of TRS (teachers, principals, administrators, etc.) that schools must pay to the retirement system. The 4.41 percentage point increase is tantamount to school districts paying a 4.41 percent increase in salaries. While the average increase in state aid that school districts will receive in 2013-14 is about 4.7 percent, much of that increase will be gobbled up by pension payments alone.

Q: What does the pension smoothing law do to the contribution rate?

A: The new law allows school districts and BOCES to opt into a plan that would lock them into a stable pension contribution rate over seven years, beginning with the 2013-14 plan year (rather than the annual actuarially-required contributions they otherwise would be required to pay). The flat rate would be 14 percent for at least the first two years. The TRS retirement board may increase the stable contribution rate by up to two percentage points in year three (to ensure that contributions are sufficient to fund benefits for active and retired members), and by another two percentage points in year five. The stable contribution rate may not exceed 18 percent. The retirement board can decrease the stable contribution rate, if warranted, but in no event can the stable contribution rate be less than 14 percent. Districts must decide whether to opt into the plan between July 1, 2013 and June 30, 2014.

Q: Do districts need to make up the difference between the normal contribution rate and the stable rate?

A: In the sixth year (beginning July 1, 2018), districts that elect to participate in the plan must, in addition to contributing the stable contribution rate, begin paying back their accrued deferred contributions accumulated in the first five years. The stable payment must be paid in equal annual installments over a five-year period, with interest on the unpaid portion to be based on U.S. Treasury securities.

In the eighth year (beginning July 1, 2020), districts that participate will resume payment of the annual actuarially-required contribution. Additionally, there will be a payment to the retirement system to pay back the deferred employer contributions accumulated in years six and seven. The stable payment must be paid in equal annual installments over a five-year period with interest on the unpaid portion to be based on U.S. Treasury securities.

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Q: Can districts that opt into the plan leave early?

A: School districts may elect to terminate participation in the program and resume payment of the annually calculated actuarially-required contribution. In that event, the district would have to make a reconciliation payment, making up the difference between what they *have* paid and *would have* paid under the normal rate. The reconciliation payment would be made over a period not to exceed five years.

In addition, if the retirement system's assets fall below 80 percent of its projected payment obligations at the end of any plan year, the program will end and employers who have elected the program would go back to contributing the annual actuarially-required contribution in the succeeding plan year, along with a reconciliation payment.

Q: Were there any changes to the retirement system for non-teachers?

A: Yes. The New York State and Local Retirement System – otherwise known as ERS – allows school districts to amortize a portion of their pension payments for non-teaching staff (i.e., food service workers, custodians, etc.) with the retirement system itself. Under the plan, school districts would be allowed to amortize contributions based on the difference between the actuarially required rate — which is 20.9 percent for the 2013-14 school year — and a graded rate over a 12-year period at the 10-year U.S. Treasury rate. The graded rate for contributions in fiscal years ending 2014 and 2015 will be 12.0 percent for employers. The graded rate will then move toward the actuarially required rate by no more than 0.5 percent per year from the prior year's graded rate.

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