Reserve Fund for Teacher Pension Costs
ELFA Bill, Part A (A.9506-A)

Under current law, school districts and local governments may use a Retirement Contribution Reserve Account to set-aside funds to pay for anticipated future obligations to the New York State and Local Employees Retirement System (ERS) and Police and Fire Retirement System (PFRS). But school districts are *not* permitted to set-aside funds for future pension contributions on behalf of the roughly 80 percent of their employees who are members of the New York State Teachers Retirement System (TRS).

Mandated pension contributions from school districts and local governments can vary dramatically from year to year depending on investment earnings which generate most of the revenue retirement systems use to meet benefit obligations. Districts pay an employer contribution rate that is volatile and can create significant budgeting difficulties. After several years of decline in the rate, down to 9.8% of payroll for the 2017-18 school year, the rate will increase to 10.63% for the 2018-19 school year payroll, a cost increase of nearly $200 million for school districts.

The Assembly proposal mirrors one from the New York State Teachers Retirement System that would also set strict annual and total contribution limits that may be utilized for funding future TRS obligations. These caps provide the state, district employees and taxpayers, all necessary assurances that districts cannot abuse this reserve to the detriment of other interested parties.

Authorizing schools to save money to meet future pension obligations helps reduce or avoid the need for either damaging cuts in services and staff or increases in local taxes in the event of a future spike in contribution rates. This is a responsible tool that would help districts manage challenging budgets that are difficult to control because of an unpredictable annual state appropriation process and caps on revenue at the state and local levels.

Again, local governments already possess authority to reserve funds to meet pension obligations for their entire workforce. They also have no percentage limit on unrestricted fund balance. Schools, on the other hand, are not permitted to set-aside funds on behalf of the vast majority of their employees and are limited to an unrestricted fund balance of not more than 4 percent of their budget, despite the fact that they are subject to annual budget votes, a more restrictive tax cap, and greater financial transparency requirements, including detailed reserve fund reporting enacted just two years ago. These pension obligations are not going away. Therefore, to ensure financial stability and sustainability, as well as protect taxpayers from large levy increases, a TRS reserve is in the best interest of all.

The New York State School Boards Association and the New York State Council of School Superintendents urge the legislature to authorize a reserve fund for teacher pension obligations.