Pension Policy
Public pensions are immense, complicated, and politically charged. Regulating them requires a complex balance among state and local executives, legislatures, and competing special interests.

**Public Retirement Systems**

State and local governments are employers that struggle to control compensation costs, especially pension contributions. Thirteen million employees and 6 million retirees and beneficiaries participate in U.S. public retirement systems. The number of participants exceeds the population of most countries in the United Nations.

As of 2005, the U.S. public-retirement systems accumulated approximately $2.3 trillion in assets. Given this magnitude, any significant change in benefits has a profound effect on taxpayers in terms of funding pension costs. Some state legislatures have enacted laws that created pension commissions to study the subjects of retirement, income after retirement, disability and death benefits, and the retirement needs of public employees.

**History of Some N.Y. Pension Commissions**

During the Progressive Era, 1890 to 1920, elected officials created pension commissions with broad powers to analyze the impact of pension benefits on state and local employers’ finances. In the first decade of the 20th century, municipal reformers focused on city budgeting and accounting.

The 1914–1918 New York City Pension Commission constructed a scientific image of public pensions. It reported on the operation of the nine existing city pension funds. The commission’s actuary, George B. Buck, made pension data comprehensible by using actuarial balance sheets, statistical tables, and charts. He then made an actuarial investigation of the municipal employees’ mortality and service experience.

The commission and its staff contextualized and interpreted the raw data, then reported the findings and recommendations to the mayor and other appropriate officials. The power of the reports lay in the impression that the commission had assessed a complex problem and the appearance that it had control over that problem.

The legislature acted quickly on the commission’s recommendations. It declared state policy by granting corporate status to any retirement plan that (1) operated on sound actuarial principles, (2) required rates of contribution based on mortality and service tables, (3) provided annual valuations, and (4) held assets in a separate trust fund and invested in approved securities.

The New York City Pension Commission recommended design features of a pension plan that included
eligibility criteria for participation and benefits, a defined benefit formula, and cost sharing. The commission recommended that employees and taxpayers share the cost equally, with employees providing approximately 50 percent of the cost of benefits.

The basic principles that underlie the recommendations are individual equity and adequacy. A plan member can expect a reasonable return on his contributions and an adequate level of pension based on earnings. In addition, annuitizing contributions at retirement mitigates a plan member's longevity risk.

Albany, the New York State capital, governs New York City pension policies. In 1917, calling it the first scientifically constructed pension law that has ever been put on the New York State books, Mayor John Purroy Mitchel signed the City’s Teachers’ Pension bill. As the chief executive of the state, Gov. Charles S. Whitman signed the pension bill into law.

Next, the New York State and City pension commissions proposed retirement systems to cover all entrants other than police officers and firefighters into the municipal service. In 1921, the legislature established the city employees’, the state teachers’, and the state and local retirement systems. These retirement systems were products of the Progressive Era’s liking for large centralized bureaucracies. During the 1920s, the differentiation and specialization of occupational groups—for building and running universities, mental hospitals, and courts—led to an increase in the number of pension plans.

The Great Depression and the liberalism that dominated American politics, such as the federal Social Security Act of 1935, had strong effects on public pension plans. President Franklin D. Roosevelt signed the labor-backed Social Security Act into law. In 1954, the law extended coverage to public employees belonging to governmental retirement systems.

In 1957, the New York State legislature approved unanimously a bill to make state and municipal employees eligible for federal Social Security benefits. However, the legislature didn’t attempt to coordinate the federal Social Security benefit with retirement system benefits.

New York history is replete with battles that have defined interactions between city hall and Albany, with angry fights over pensions. In 1961, Mayor Robert F. Wagner (1954-1965), the son of a famous U.S. senator who was a chief architect of Social Security, voiced his opposition to a pension sweetener for city workers. Wagner asked Gov. Nelson A. Rockefeller (1959-1973)—scion of one of America’s richest and best-known families, famed for his bipartisan proclivities and progressive policies—to veto a bill because it was too generous. After Rockefeller signed the bill, Wagner excoriated Rockefeller for having increased the city’s expenses for pensions. Two years later, Rockefeller signed other bills opposed by Wagner that added to the cost of pension payments to city police officers, firefighters, and sanitation workers.

Events that excited the city during the 1960s included a uniformed sanitation workers’ strike, a teachers’ strike, and a transit workers’ strike. By the end of the 1960s, public-sector workers’ unions effectively ran sanitation, schools, and subways. They demanded improved benefits, and they got them. As tumultuous as the 1960s were, it was also a time of economic boom.

Before 1970, a legislature could secure a major change in pension policy that was avidly sought by a few special interests—in particular, organized labor—by slipping a few sentences into a big bill. Gov. Rockefeller’s Select Committee on Pensions focused on reducing the cost of pensions. Reform, however, required independent review to determine the cost of benefits. Section 50 of the law requires that all public-employee pension bills contain a fiscal note indicating the dollar impact of changes being made.

The city’s financial collapse of the mid-1970s was a different story, when retrenchment and austerity would test the mettle of public policymakers. In 1971, the legislature created the Permanent Commission on Public Employee Pension and Retirement Systems (the Permanent Commission). The Permanent Commission had broad
authority to examine and make recommendations on all aspects of the retirement systems. The goals of the Permanent Commission were to ensure uniform, equitable, and adequate retirement benefits for public employees through soundly financed systems consistent with taxpayer capacity.

The Permanent Commission stressed the importance of developing policy that would last for a long time. It arranged public hearings on pension issues and sought informed public debate. Entrenched interest groups with a variety of viewpoints advocated their particular social and political agendas, but that didn’t make them useless as a source of knowledge. To a considerable degree, each group’s unique bias helped us understand the range of viewpoints people held at the time.

The Permanent Commission provided the governor and the legislature with results of research projects and continuing education opportunities. For example, it reported retirement income replacement ratios and quantified how much income retirees were likely to need to preserve a family unit’s pre-retirement standard of living. Using the ratios as a benchmark, the commission measured the sufficiency of its recommended pension plan when combined with Social Security benefits and personal savings. Its reports were widely cited by pension officials, policymakers, and the news media.

During changing economic conditions and political administrations, the Permanent Commission recommended policy changes that led to major revisions in the New York Public Retirement Systems (NYPRS). It reviewed features of NYPRS and of other state retirement systems, to assess strengths and inadequacies. It produced 38 reports, and its recommendations influenced debate in Albany on pension benefits, actuarial assumptions, and funding policies. The state and city budgets shaped and inevitably limited the scope and ambition of the commission’s recommendations.

The Permanent Commission’s report of March 1975 was significant because it urged the adoption of realistic actuarial assumptions so that the city’s retirement systems could be placed on a sounder financial basis.

A short time later, in September 1975, Mayor Abraham Beame asked Richard Shinn of the Mayor’s Management Advisory Board to review and restore integrity to the city’s five retirement systems. The Shinn Committee recommended revised economic and demographic assumptions and ways that the participating employers could contribute substantially larger annual contributions to keep the retirement programs adequately funded. The Mayor’s Management Advisory Board published a series of recommendations calling for updated and realistic actuarial as-

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The legislature created contractual rights in enacting new benefit structures. The general benefit structure, a “tier,” for each of the retirement systems, depends on when the employee joined the system. While the tier structure generally defines the benefit parameters for active employees and retirees, various legislative actions over the years have created different benefit plans for specific employee groups within the tier structure. Different tiers and plans, as well as the legalistic language of plan documents, added to the complexity of the retirement system.

Tier 1 comprised the various pension plans as they developed historically before 1973. Tier 2, which imposed certain limits on benefit improvements, was a step toward uniformity. The legislature changed the pensionable salary for city pension plans to a final three-year average, and all members of Tier 2—except police officers, firefighters, and teachers—were subject to maximum retirement limitations.

After a comprehensive review of the NYPRs, the Permanent Commission submitted a report in March 1976 to Gov. Carey and the legislature. It recommended the enactment of a new public-employee pension plan, the 1976 Coordinated Escalator Retirement Plan, which took into account Social Security benefits paid by the public employer. It also made provisions for an automatic escalation of benefits of up to 3 percent a year.

The legislature enacted this new plan in July 1976. Though the benefits cost less than benefits under the previous plan, they were complex to administer. In 1983, the legislature again changed the benefit structure.

Some recommendations for pension policy changes didn’t sit well with organized labor. Union leaders have been some of the most vocal opponents of reducing benefits for public employees. Some leaders of public-employee labor unions warned that any reduction in pension benefits would result in greater wage and fringe-benefit demands at the bargaining table. The Permanent Commission nevertheless strongly influenced the legislature to enact Tier 2 in 1973, Tier 3 in 1976, and Tier 4 in 1983. Pension changes were often controversial, and the payback wasn’t immediate.

In March 1992, the legislature abolished the Permanent Commission, resulting in an escalation of pension benefits and costs. New pension legislation quickly destroys uniformity.

Inflation had eroded purchasing power during the late 1970s and early 1980s. In 1999, Gov. George Pataki announced the creation of a 15-member task force on New York public-employee retirement systems. He charged the task force with studying and reporting on the financial condition and the pension benefits of each. The task force found the systems to be well funded and focused on legislative adjustments to the fixed-dollar retirement allowance. Based on the task force recommendations, and state and city budget surpluses, the legislators granted retirees an automatic cost-of-living increase tied to the rate of inflation. Taxes didn’t have to be raised immediately in order to provide these increases.

Today, the eight NYPRs (five city and three state) administer pension and other benefits for more than 1.3 million employees in active service, and 0.7 million retirees and beneficiaries, or 2 million participants. The participants exceed the total population of Albany, Buffalo, Niagara Falls, Rochester, Schenectady, Syracuse, Utica, and Yonkers. The value of NYPRs’ net assets at the end of the fiscal year 2006 exceeded $330 billion. The magnitude of the NYPRs, both financially and in terms of membership, touches all New Yorkers.

Pension Commissions
At the beginning of the 20th century, the great moneyed powers were insurance companies and the daily newspapers. They often expressed their core political beliefs that governments have become too costly and that taxpayers and businesses should decide how to spend their own money.

Government and business leaders often make spirited and emotional arguments for striking a balance between the irresistible forces of pension demands and the immovable object of taxpayers. They recognize the moral obligation of public employers to make the payments they promised to make. The constitution of New York confers contractual status on public retirement membership. The public is better off when pensioners have retirement security and when taxpayers pre-fund those benefits.

A governor, a mayor, or a legislator who wants to pursue the continuity of sound policy based on ethical and economic principles creates a pension commission through an executive order. An executive order describes the purpose of a commission, and it defines its functions, rights, duties, and authority. The Minnesota Legislative Commission on Pensions and Retirement and the Public Retirement Commission of the Commonwealth of Pennsylvania, for example, perform reviews, make recommendations to standing legislative committees on pending proposed public pension legislation, and conduct ongoing research on pension policy issues. These commissions provide assessments of the actuarial soundness and cost of proposed legislation.

A commission has the duty to study the retirement needs of public employees. Retirement systems should ensure equitable and adequate retirement benefits for public employees through soundly financed systems consistent with taxpayer capacity. A measure of the effectiveness of a retirement program is the extent to which it meets employer objectives set for improving governmental service. Public personnel policy, for example, should make public service more attractive and stabilize employment by reducing turnover.

A commission convenes regularly to deliberate on pension issues. Members of a commission, public- and private-sector leaders, usually...
have years of experience in state and local politics. A governor, mayor, or legislative leader exerts substantial authority through the power to appoint members to a commission. He influences policy by designating the chairperson, making key appointments (usually along political lines), and providing funding and other resources to a commission. Governors exercise strong influence over a commission’s budget, infusing it with resources to analyze proposed pension legislation. The chairperson must bring people together and establish relationships to achieve sustainable results over time.

In collaboration with the administrators of pension funds, a commission begins its investigation by examining the laws, regulations, and procedures governing the provisions of pensions for employees. A commission’s staff may trace the major developments of a retirement program since its establishment by a review of subsequent legislation, since all significant changes in a program usually require legislative enactment. The commission holds fact-finding sessions to hear testimony from experts.

A commission has to deal with groups exerting powerful political influence. Facing pressure from business and public-employee groups, the chairperson of the commission moves forward by conducting studies of pension benefits and holding public hearings to figure out what pension policy changes the legislature would accept. He authorizes the commission’s staff to study and analyze types and costs of retirement systems, methods to improve the operations and effectiveness of such systems, and the effects of proposed legislation on retirement, income after retirement, disability, and death benefits. Meanwhile, advocates on all sides of an issue publish their own research reports.

Business groups and organized labor, dedicated to the advancement of their members’ interest, submit comments in letters or reports. Business and taxpayer groups, on the one hand, may argue that they bear the cost of increased benefits. On the other, organized labor may use wage and fringe benefit data as their major guideline, discounting the taxpayers’ argument of inability to pay.

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Once the commissioners have a picture of the benefit structure and proposed changes to the benefits, an actuary analyzes the current and future costs of benefits. The actuary estimates how much money the employer and employee contribute and when.

After forging a consensus of its members and getting support from entrenched interests, a commission produces a report of its findings and its recommendations. The report sets forth the procedures, methods, data, and assumptions used in calculations, as well as the results of the calculations. It releases the data that would allow researchers and the public to interpret its findings, to verify conclusions, and to evaluate recommendations that help the legislature develop a long-term plan to help public employees, employees, and taxpayers. The commission may recommend changes to laws and regulations.

A commission influences public policy by hosting persuasive briefings on its findings and recommendations for the media, by publishing its studies and by drafting legislation. The staff to the commission drafts pension bills to reflect the commission's recommendations. In addition, the staff reviews pension bills drafted by others.

A finding about the driving cost of pensions helps inform policy-makers. In high-profile pension matters, a commission weighs in with authority. Seasoned members of a commission, along with support from staff, make up a powerful advocate for pension policy changes.

Neither a governor nor a mayor nor any legislator alone decides on a pension policy change. Elected officials must consult with other elected officials, with investors and lending organizations and supporters, whose expectations they have to meet. No elected official, however powerful, could do much without maintaining good relationships with entrenched interest groups. Hence, the ability of business to mobilize its forces, and of organized labor to counter-mobilize, has a cash value. Sustaining good pension policies requires a balancing act between potential winners and losers emerging from new pension legislation. Saying "no" to someone means saying "yes" to someone else.

**Conclusion**

Who cares about public pension policy? And why? At least two groups of people care: public employees and other taxpayers. Legislatures create pension commissions with broad powers to analyze the impact of pension benefits on state and local employers' finances and to evaluate the effectiveness of these benefits in the recruitment and retention of employees.

Studying the background and events that led to a pension commission and its report—as well as the social, economic, and political climate of the period—is helpful in understanding public pension policy. Nevertheless, translating a commission's recommendations into law becomes the next hurdle, and one that elected officials warn is probably a more difficult phase of the policy process.

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