

# 21<sup>st</sup> Century Pension Relief Plan

This is a pro-taxpayer plan aimed at revolutionizing an outdated entitlement system that has cost taxpayers millions and has become a huge impediment to New York's future growth.

When our current defined benefit plan was established we lived in an era when manufacturing jobs were plentiful and public sector workers were reimbursed for their hard work with little pay but a lucrative benefit package. As a time has progressed our state has hemorrhaged private sector employment, replacing these workers with public sector jobs.

I am presenting a comprehensive plan that will protect today's tax-paying families and tomorrow's future leaders, but still provide the much needed retirement benefits to our hard working public servants.

The Quinn Plan includes:

## **1) Defined Contribution for Elected Officials and Political Appointees**

For far too long New York politicians have been able to collect lucrative pensions while not having to worry about the health of our state economy. This plan would drastically change this by tying elected officials pensions to the state of the economy. It would ensure that:

- All elected officials would transfer from a Defined Benefit ("DB") to Defined Contribution ("DC") plan at the end of their current term.
- All public officials and political appointees that take office or begin employment after December 31, 2010 would switch to a DC plan.

Note: This is very similar to a bill introduced by Assemblyman Mike Fitzpatrick. As a result of possible Constitutional issues, the Attorney General's Office has been asked for its official position.

## **2) Pension Benefits for New Workers**

Starting January 1, 2011 all new employees of New York State would be placed into a hybrid pension system that mirrors the plan currently used by SUNY/CUNY employees. This would include the following:

### **Hybrid Model**

- This is model mixes the DB and DC (Optional Retirement Plan) and has been used by UUP for years.
- Employees vest after one year of service; unless the already hold a retirement account with one of the carriers in that case they vest immediately.
- Employees contribute 3% of their salary for 10 years.
- Employers contribute an amount equaling 8% of the employee's salary for first 7 years; 10% for years 8-10; 13% of salary thereafter.
- No minimum retirement age.
- Completely portable for the employee.
- Benefit can be taken as a lifetime annuity or cash withdrawal.
- Retirement benefit is based on the accumulated value of contributions made by the employee, the employer and the market investments.

### **Schools and Local Government**

On the local level, school districts and local governments will be able to decide which pension program they offer to their new employees. The options will include:

- ⇔ The Defined Benefit plan that is currently offered.
- ⇔ Use the SUNY/CUNY plan.

⇔ Change to a Defined Contribution plan.

### **Defined Contribution System**

The employer minimum contribution would be 8%, rising to 10% after eight years; (2) the minimum employee share would be 3% through the employee's working life; and the employer would "match" up to 3% a year of additional voluntary employer contributions (i.e., an employee who contributes a total of 6% of his or her salary would initially receive an employer match of 11%, rising to 13% after eight years.)

### **Police and Fire**

The current PFRS (Police and Fire Retirement System) will be changed to the following:

- ⇔ All new police and fire employees will be in a defined benefit program.
- ⇔ To receive a full pension they must stay in the system for 25 years and be 50 years old.
- ⇔ No overtime will be used to calculate their pension.
- ⇔ Once they have retired and met the aforementioned threshold they will receive sixty percent of their final pay.

### **System Mobility**

If you are placed into the defined benefit plan you would have the option if it is allowed to move to a hybrid plan or defined contribution plan. Additionally if you were placed into a hybrid plan, you would have the ability to move into a defined contribution plan. Mobility is workable solely toward a defined contribution plan as result of the employer contribution and not in the opposite direction.

### **3) Felony Convictions**

In the last several years, we have witnessed far too many elected officials and New York State workers who have been convicted of felonies and have continued to collect state financed pensions. The Quinn legislation says:

- If you commit a crime that violates your public duties or a felony you lose your pension no matter if you are an active or retired member of the pension program.

### **4) End Double-Dipping**

New York State law currently allows a retiree that is receiving a pension to also be compensated \$30,000 in salary from the state of the New York (Section 211). If the employee has a "unique" characteristic specific to that job, they can in that circumstance receive the full salary. This is currently referred to as a 212 waiver. This bill would:

- Eliminate the 212 Waiver
- All DB workers in local government would be subject to section 211 and the \$30,000 ceiling.

### **5) Stop Pension Padding**

The taxpayers of New York State have consistently had to deal with workers that abuse our system by earning exorbitantly large amount of monies at the end of their career in an attempt to pad their pension. As a result, local employees that are still in a defined benefit plan will:

- Have to tie their pension calculations to the taxable rate of Social Security (currently \$106,800).

### **6) Removing tax on pensions**

A concern that is often raised by many private sector employees is that public sector pensions are not subject to state taxation. As a result, the plan will not tax state pensions, but rather:

- Allow private sector employees to exempt the first \$250,000 from their 401(k) payments.

## **7) Pension Fund Transparency**

The State of New York, similar to most states, measures its pension obligations against an annual eight percent (8%) market rate of return. Most financial experts agree that this rate is far too generous (the median rate of return for the 20<sup>th</sup> Century was 5.3%) especially when most private pension funds use a more conservative six percent (6%) rate of return. As a result, this pension plan will:

- Require by law that actuaries for all state and local pension funds should annually calculate the Market Value Accumulated Benefit Obligation ("MVABO") for these funds.
- Further, the Comptroller's Office will have to report by law to the legislature and make public its report determining how the Market Value of Assets (MVA) match the Market Value Accumulated Benefit Obligation (MVABO).
- The Comptroller with the aid of these actuaries should also report to the legislature and make public the statistical likelihood that pensions funds will meet their average target rate of return over a period of 5, 10, 15 and 20 years.
- Great example the NYC Retirement System was funded 100% under the Actuarial Asset Value (AAV) versus Actuarial Accrued Liability (AAL) system. Once you use the true market forecasts and compare MVA to MVABO, the system is only funded 65%.