NEW YORK CITY COUNCIL FINANCE DIVISION
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NOTE ON THE FISCAL 2022 EXECUTIVE BUDGET
PENSIONS

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The bulk of the City's pension contributions fund five actuarial pensions – the New York City Employees' Retirement System, the Teachers' Retirement System, the New York City Board of Education Retirement System, the New York City Police Pension Fund, and the New York City Fire Pension Fund. The City also contributes to a handful of non-city retirement systems, including the Cultural Institutions Retirement System and the Teachers' Insurance and Annuity Association.

Total pension spending will reach $10.3 billion in Fiscal 2022, accounting for 10.4 percent of the City's total budget and 19.1 percent of the City's PS budget. The Fiscal 2022 Executive Plan introduces no pension-related changes. However, significant expense changes occurred in both the Fiscal 2022 November and Preliminary Plans. The November Plan increased pension expenses by $491 million over Fiscal 2022-2024, while the Preliminary Plan reflects a number of actuarial changes which reduce pension expenses by $17 million across the Financial Plan period.

Changes to the actuarial assumptions and methods proposed by the Chief Actuary in January 2020 – and reflected in the Preliminary Plan – allow for pension contribution reductions of $429.9 million in Fiscal 2021, $303.5 million in Fiscal 2022, and $69.3 million in Fiscal 2023. The proposal reduces the Consumer Price Index (CPI) assumption, a measure for inflation, by 0.05 percent per year over the next four years, bringing it to 2.3 percent by the end of the Plan period. This action affects three other actuarial assumptions – the Actuarial Interest Rate (AIR), the General Wage Increase, and the Cost of Living Assumption – all of which receive the same 0.05 percent reduction each year over the next four years. The change in the AIR from seven percent to 6.8 percent brings City pension assumptions in line with those of New York State's pension system. The Chief Actuary's proposal also includes a Market Restart to bring the actuarial value of pension assets equal to market value, a departure from the normal practice of phasing in gains or losses gradually. Since the phase-in takes effect at a time of strong upward momentum in financial markets, it will reduce the City's required pension contributions immediately.

It should be noted that while some of the changes to the actuarial assumptions and methods generate significant savings in the short run, the cost to fund pension contributions grows by a combined $785.8 million in Fiscal 2024 and Fiscal 2025, nearly offsetting all the savings in the first three years of the Preliminary Plan. The AIR phase-in is the principal source of the cost increase.