Q's & A's from NYSTRS'
Employer Contribution Rate Webinar
Dec. 11, 2008

Questions submitted in advance of the Webinar:

Q: Is the retirement system looking at adding a fifth tier to help offset some of the cost?

A: The benefit levels are set by the NYS Legislature and the governor. The Retirement System administers the benefits as they exist in statute, so this would not be up to us, it would be up to the Legislature. A point to make here, though, is that even if the fifth tier comes in, it will be at least several years before there is any noticeable savings, because benefits for currently active and retired members are constitutionally protected; they cannot be diminished. So benefits can only be made lower for new entrants who join after a certain date, and it would be at least several years before they make up enough of a percentage of the population to really impact the cost of the plan. So ultimately, as the years go by, adding a fifth tier (with lower benefits) would have a cost-lowering impact on the employer contribution rate, but the effect would not be immediate.

Q: If the five year average rate of return as of 6/30/08 decreased to 9.9% from the prior five year average of 12.3%, why is the rate decreasing from 7.63% to below 7%? Shouldn't the rate for salaries paid in fiscal year 2009-10 be increasing to make up for the shortfall?

A: While the Retirement System's investment rate of return is a critical factor in whether the rate increases or decreases year to year, it is not the only factor. Teacher and retiree mortality, rates of retirement, withdrawal, salary increases, etc. are some of the other factors that are involved in the annual actuarial valuation which also determine up and down movements in the rate. Additionally changes in the benefit structure can have a large impact on the rate; adding a cost-of-living adjustment, for example, or modifying the retirement benefit formula. Additionally a change in actuarial methods or assumptions can have a large impact on the rate; these changes are less frequent, although last year we modified our actuarial value of assets method, or "asset smoothing method." Overall, without any of these other changes, the returns in the capital markets are a pretty decent barometer of how the rate is going to move from year to year. However, the rate does not move in lock step with the market; and there may be other factors in a given year.

Questions submitted during the Webinar:

Q: Knowing what we know, why not leave the rate at 7.63%?

A: The funding methodology followed by the Retirement System is described in statute and conforms to appropriate actuarial principles and procedures. We are required to follow that logic. We understand, and are very sympathetic to, the budgeting difficulties created by a rate that goes down and then goes up. That is why we are putting this information out well in advance, so employers have an opportunity to plan for this movement in the rate.

Q: Since most districts are now working on the 2009-10 budget, is it too late to increase the NYSTRS contribution rate for that fiscal year so that the rate for 2010-11 is not as drastic a jump?

A: The answer to this question is basically the same as the answer to the previous question. We would not increase the rate resulting from the June 30, 2008 actuarial valuation because assets have not done well since that time; just as we would not decrease the rate if assets had done very well since June 30. The answer is that those investment results will be reflected in the next year's valuation. Even though an up-and-down rate is difficult for budgeting, with the state having serious financial difficulties, and the possibility of a reduction in state aid to schools, many employers may welcome the reduced rate, even if only for one year.

Q: Is there any provision in your funding formula to smooth rates and set rates equal or higher for 2009-10 payrolls to avoid the anticipated 50% increase in 2010-11?

A: The answer to this question is basically the same as the answer to the previous two questions. The asset smoothing that is part of the actuarial valuation does somewhat smooth the rates and reduce volatility caused by fluctuations in the capital markets. But while it reduces volatility, it does not remove it. Because our rate is relatively low – it has been in the single digits for the last 20 years – any increase or decrease in the rate is more likely to represent a higher percentage. This is just mathematics. If our rate was 6% one year and 8% the next, that's a 33% increase; however if the rate was 22% and went to 24%, that's a 9% increase. However it represents the same dollar increase – 2% of pay – in each case.

Q: Is the Legislature acting on a law for school districts to set aside reserves for NYSTRS employer contributions?

A: This is more of an accounting issue and a little outside our scope. However, it's my understanding that school districts, at the moment, do not have a specific reserve in order to advance-fund contributions to us. It would be helpful if they did; but, I believe they do not. Maybe this is an issue that the NYS School Boards' Association could take up, or the NYS Association of School Business Officials. I don't know if any law is being considered.

Q: Related to the question you're answering now, isn't it prudent for districts to utilize a higher percentage in their budgeting to help offset the impact for the following year? Are we permitted to do that? Is it a local Board of Education decision to do that?

A: That's a very good question and as I mentioned before, it is outside our area of expertise. I am not certain about what districts are permitted to do with respect to budgeting. Part of our goal in doing this Webinar is to put out this information well in advance. The anticipated likely increase in the rate will be applicable to 2010-11 member salaries and will be collected by the Retirement System in the fall of 2011 – almost three full years from now.

Q: I do not believe that school districts can legally set aside funds in advance of 2010-11. Do you know of one?

A: No, I don't. Again, this is a school district budgeting/accounting issue and I'm not sure exactly what the rules are.

Q: Have you considered increasing the service limit from 10 years to 15 years for employee contributions?

A: This is part of the benefit structure that is set by the Legislature and the governor, so it would be up to them to make a change of this nature. Based upon what we have seen, a Tier 5 is being considered, with a longer employee contribution period likely to be one of the features.

Q: What does the "addition to payroll" amount represent on the New Retiree – Profile slide?

A. This is the annual addition to our retired member payroll from the current fiscal year's class of new retired members.

Q: Are there any plans to increase the member contribution rate?

A: Again, this would be up to the Legislature and the governor to decide.

Q: If an incentive is offered, what would it most likely look like? One month per year service?

A: The typical retirement incentive that has been offered in the past offers an additional month of service credit for each year of service, up to a total of three additional years of service credit. In the last incentive, this was called Part A of the incentive, employers had to elect to participate in that part of it and then they were billed separately for their members that took advantage of it. Part B of the incentive is what was called a "55/25" plan, under which Tier 2, 3, and 4 members could retire without the typical early retirement reductions if they were at least age 55 with 25 years of service (as opposed to the 30 years of service that is required now to bypass the reductions). This Part B was offered across the board and the cost of it was socialized across all employers. No employer election was required. This is what the last incentive looked like, so it's a good guess regarding what a future incentive may look like, but we certainly don't know for sure what form one would take if one were to be offered.

Q: Do you expect another retirement incentive?

A: Again, this comes from the Legislature. Often in the past we have found out about it pretty much as you find out about it. At this point we have no knowledge of one being imminent, although that could change on any given day.

Q: If NYSTRS' investments average 0% over the next five years, what would employer contributions go to in five years?

A: That's an interesting question; we don't project that far out simply because returns in the capital markets are obviously extremely difficult to predict, as are several other factors that will impact future valuations. If we were to earn zero percent on our investments over the next five years, without a doubt our employer contribution rate would go up substantially, for certain we would be in double digits; beyond that, it's difficult to speculate how high it would get, but off the top of my head I would say it's likely the rate would be in the teens at a minimum.

Q: Could you please restate the current diversification of NYSTRS' assets?

A: We have approximately 50% in equities: 40% in domestic equity and 10% in international equity. We have about 13% in real estate; 8% in private equity; 19% in fixed income (bonds); 8% in mortgages; and about 2% in cash. This is our approximate asset allocation as of November 30, 2008.

Q: What is the average number of years that retirees draw from the System? Has that number increased historically? How does that effect plan funding?

A: The average number of years a retired member draws from the Retirement System is approximately 22. Our average retirement age is approximately 58, and our retired members generally live to an average age of 80. Although, keep in mind this is an average over a large number of people. Retiree age at death varies substantially; we have some members who die right after retiring, and others who live into their 100s. I believe our oldest retiree is 106. The mortality of retired teachers as a group tends to be very good in comparison to the general public, or other groups of retirees.

The number of years our retirees live in retirement has definitely increased over the years. This increase is taken into account in the development of our retired member mortality assumptions. We do experience studies every year on a one-year and five-year basis to monitor mortality improvements over time. Approximately every five years or so, or more frequently if warranted, we revise our actuarial assumptions to be in line with current and expected rates of mortality. As mortality improves, the cost of the plan increases, but because we stay on top of it and revise assumptions as warranted, the increase is generally incremental and not the huge jump that would occur if we ignored this aspect for long periods of time.

Q: The difficulty for districts is to deal with the spike in rates. This is what caused the fiscal distress in prior years.

A: We certainly recognize that and are sympathetic to this issue; however, the plan needs to be funded appropriately. It is a defined benefit plan – the investment risk, as well as reward, does lie with the employers. It's worth noting that what we call the plan's "new entrant rate" – a hypothetical rate representing what we would charge employers if we started a brand new Retirement System with no assets – is approximately 12% of pay. This can be thought of as the cost of the benefit structure, assuming our actuarial assumptions are exactly met each year. Our actual rate has been lower than 12% over the last 20 years (often much lower). Primarily due to our gains on investments, employers have enjoyed a lower contribution rate than they otherwise would have. We would like nothing more than to continue this trend.

Q: With your estimate of a Fall 2011 rate of 9%+ based on current market levels, would you care to forecast an additional year and provide a Fall 2012 guess on the same market levels?

A: We typically don't venture too far out with estimates simply because there are too many variables in the process. It's a little like asking someone to predict the following year's Super Bowl winner; you could venture a guess, but there's an awful lot of variables that will play a part. If the capital markets do not pick up, even if we don't continue to lose more but the markets do not regain any of their prior position, then the rate would increase substantially again.

Q: Is it possible to change the actuarial assumptions to smooth rates for future years?

A: We annually review our actuarial assumptions for appropriateness, and their goal is to predict future member experience. We wouldn't change the rates in order to achieve a specific contribution rate; that would kind of defeat the purpose. Modifications to the actuarial assumptions can have the effect of lowering the rate, however. For example, if teachers begin to retire in lower numbers and at higher ages, this would lead to a revision in our assumed rates of retirement, which would decrease the cost of the plan.

Q: What types of investments are included in the private equity category?

A: These are typically large funds, put together with groups of institutional investors, such as ourselves, and cover any number of areas. They have been very successful for us as an asset class. Generally, you have to be a large scale investor to participate in these types of investments. There is information in our Annual Report with respect to the private equity portfolio. If you have more questions you can certainly e-mail the Retirement System.

Q: Does a surviving spouse continue to collect benefits?

A: Yes, if at retirement the member elected a form of benefit that provides a survivor benefit upon their death (such as a joint and survivor form of benefit) and assuming the spouse is named as the beneficiary. The member's retirement benefit is reduced for the actuarial cost of this survivor coverage. Information on this topic is available on our Web site. Estimates of the reduction for different optional forms of benefit can be provided by the Retirement System.

Q: Is the 6-7% rate for next year an absolute guarantee?

A: Yes. The next rate (applicable to 2009-10 member salaries) will be between 6 and 7 percent.

Q: Great job! Thank you for this interesting and very informative Web cast. I think the first NYSTRS webinar was very helpful, and I appreciate your patience and knowledge in answering questions and being responsive to districts.

A: You're welcome. If you have more questions, or if you think of something later, please go ahead and send an e-mail to the Retirement System. Thank you very much.