

## **MAYOR MARVIN'S COLUMN**

Once a year, the Village is billed by the State for our share of the annual cost of paying for the future pension benefits of our employees.

We recently received our numbers from the State Comptroller and as I forewarned in a column several weeks ago, the Villages' costs for mandated retirement benefits are about to soar. We received the State Comptroller's listed rates and extrapolated numbers to see the impact the new rates will have on our budgeting process for 2010. The news is grim to say the least.

For all non-uniform employees, including library staff, the rates will increase from 6.9% of payroll in 2010 to 11.2% of payroll in 2011, or an increase of 62% in a single budget year. It represents approximately \$148,000 in new charges equating to a 2% tax increase on the Village side of the budget. In addition, the police retirement costs are expected to increase by 21.7% in the same time frame which adds \$80,000 in new charges and an additional tax point to the Village budget. These new costs will be part of the 2010-2011 fiscal year which begins this coming June.

How did we get here? In the 1990's and early in this decade, employer contributions were low due to excellent Retirement Fund performance. The Retirement System's actuarial assumption has the largest impact on the employer contribution rate and the assumed annual rate of return on investing is 8%. If the investment income exceeds expectation such as it did in the early 90's, lesser contributions are required from local governments.

By 2004-2005, when the Fund's return over the previous years had fallen short of its target, our contribution rates hovered close to the 8% expected annual level.

However, for the fiscal year ending March 31, 2009, the rate of return for the fund was a negative 26% hence the major increase in our local portion.

The rate setting methodology spreads or "smoothes" unexpected equity investment performance, positive or negative, over a five year period to lessen the volatility of the impact upon employer contribution rates. Even with smoothing, the rate impact of the 2009 fiscal year loss is clearly significant and absent substantial increases in the rate of return over the next four years, our contribution rates will increase as we continue to realize the full 2009 loss.

In addition, New York State Government will be facing the same pension cost increases as local governments in 2010 and 2011, and the budget impact State-wide will be tremendous.

As a result of these tandem fiscal pressures, the State Legislature and the Governor are considering the creation of a new retirement group or Tier 5. The new designation would reduce the level of retirement benefits of future State and local government employees and thereby reduce the long term funding obligations that are crippling municipalities. The proposed plan includes a delayed retirement age provision and the requirement of employee contribution.

As point of fact, all Tier 3 and Tier 4 employees did pay a 3% contribution until it was rescinded by then State Comptroller Carl McCall during his simultaneous run for governor in the late 1990's.

For the very first time, the State Legislature is also considering reducing the benefits for uniformed employees and requiring a contribution to the fund. Traditionally, uniformed employees earn large overtime amounts in their final years of employment and thereby enrich their retirement pension. Legislators are now discussing the idea of eliminating overtime earnings from the final average salaries of uniformed employees in factoring pension benefits.

Our State Constitution also provides that the comptroller is the sole trustee of the pension system. With so much money at stake as well as the unethical track record of the previous comptroller, perhaps the time has come to expand the oversight of the fund and involve more voices in the decision making process.

Given the new economic reality, the above discussions must take place as well as searching for more creative solutions to stem the current fiscal bleeding. Simply put, continuing business as usual in regards to the State pension system will ultimately cause skyrocketing taxes and/or fiscal collapse in our cities, towns and villages. We are already seeing the effects in some communities.