

A New York School Retirement System Primer

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Public school districts in New York State are required by law to offer pensions to employees, to participate in two different retirement systems, and to make contributions for their employees' pensions into the two retirement systems. These two systems are controlled by different people and operate on different fiscal years.

1. **The New York State Teachers Retirement System (TRS)** is for certified staff including teachers, teacher assistants, and school administrators. It is controlled by a 10-member Board of Trustees and operates on the same fiscal year as schools (July 1 – June 30).
2. **The New York State Employee Retirement System (ERS)** is for non-certified school staff, non-certified BOCES staff, plus town, city, county and state employees. It is controlled by the State Comptroller and operates on the state's fiscal year (April 1 – March 31).

The money to pay for pensions actually comes from three different sources: employee contributions, employer contributions, and the return on investments (interest and dividends earned on money already in the system that is invested in the stock market or other securities until needed to pay pensions). Employees must contribute 3% of their salary annually for the first 10 years of employment. Under current law, after their first 10 years, employees pay nothing. The amount that employers must contribute is expressed as a percentage of employee salaries. This percentage can change each year and is announced some months ahead of each new fiscal year to help the various governmental bodies, including school districts, budget the needed funds.

The return on investment of pension funds varies with the health of the national economy and the stock market. The overall pool of pension assets in both retirement systems grew tremendously during the late 1980s and throughout the 1990s when the stock market was growing tremendously. Thus, during these years the amount that employers were required to contribute fell dramatically. Because the pool of invested pension assets was growing so fast, school districts, which had been contributing 23.49% of teacher salaries for 1980-81, were only required to contribute 0.43% of teacher salaries for 2000-01.

Since 2001 this situation has changed. The economy and stock market suffered major losses, and the pool of pension assets declined to the point where employer retirement contributions have had to be raised annually since 2002. Required employer contributions to the TRS, for instance, have increased as follows:

School year:	2002-03	0.36% of teacher salaries
	2003-04	2.52%
	2004-05	5.63%
	2005-06	7.97% (estimated)

This means that for 2005-06, teacher retirement benefits will cost school districts 22 times what they did just four years early.

Impact of GASB Changes

A second change is also taking place in 2005 that will greatly increase the amount of money that some but not all school districts must include in their 2005-06 budgets for pension costs. The Governmental Accounting Standards Board (GASB) is now requiring that all school districts use the **accrual method** of accounting for pension payments in their budgets. The purpose of GASB is to set accounting

standards for public financial reports (such as a school district’s annual external audit) that portray a complete and accurate picture of the financial status of governmental bodies, including school districts. GASB’s long range goal is to make governmental reporting more like private sector (corporate) reporting.

In the past, schools could use either the **accrual method** or the **cash method** of reporting pension payments. To understand why this technical accounting change matters, one needs to understand that schools are required to actually pay their obligations to the TRS in the school year after those obligations are incurred. Payments to the TRS for 2004-05 teacher pension obligations, for instance, will actually be made from September to November 2005, which is part of the 2005-06 school year.

School districts that have been using the cash method of budgeting pensions record pension expenses when the payment is actually made to the TRS. Districts using the accrual method record pension expenses when the obligation is incurred, even though actual payment may not be made until the following school year. GASB’s rationale in mandating the change to the accrual method is that should a school district go out of business on June 30, 2005, it would still be obligated to make pension payments incurred in the 2004-05 school year; therefore, its 2004-05 budget should include those funds.

School Year	Employer Contribution: Obligation to TRS Incurred	Cash method: Employer contribution budgeted = what was actually paid to TRS that school year
1999-2000	1.43%	
2000-01	0.43%	1.43%
2001-02	0.36%	0.43%
2002-03	0.36%	0.36%
2003-04	2.52%	0.36%
2004-05	5.63%	2.52%
2005-06	7.97% (est.)	5.63%
2006-07	?	7.97%

Fig. 1: Chart showing how Districts using the **Cash accounting** method have budgeted payments to the Teacher Retirement System

School Year	Employer Contribution: Obligation to TRS Incurred	Accrual method: Employer contribution budgeted = what was set aside to pay the TRS the next school year
1999-2000	1.43%	1.43%
2000-01	0.43%	0.43%
2001-02	0.36%	0.36%
2002-03	0.36%	0.36%
2003-04	2.52%	2.52%
2004-05	5.63%	5.63%
2005-06	7.97% (est.)	7.97%
2006-07	?	?

Fig. 2: Chart showing how Districts using the **Accrual accounting** method have budgeted payments to the Teacher Retirement System

Examples:

In 2004-05, a cash method district like Burnt Hills-Ballston Lake, Scotia-Glenville, or Shenendehowa both budgeted and paid to the TRS 2.52% of teacher salaries (the debt to the TRS incurred during 2003-04).

In 2004-05, an accrual method district like South Colonie budgeted 5.63% of teacher salaries and set that money aside to pay in the fall of 2005. They also actually paid the TRS 2.52% of 2003-04 teacher salaries.

The real pain will come in the 2005-06 budgets of cash method districts who must suddenly become accrual districts, and must swallow two years of pension increases in one year, jumping from 2.52% of teacher salaries in their 2004-05 budgets to 7.97% in their 2005-06 budget, a more than three-fold increase.