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N.Y. Pension Pays $708 Million to Florida Retirees: Muni Credit

(Bloomberg) — Florida is luring more than just New York's residents. It's also absorbing a growing pile of cash from the state's largest pension.

The New York State and Local Retirement System, the third-largest U.S. public plan, paid $708 million to Floridians in fiscal 2014, or about 7 percent of the total, its financial report shows. That's up about 50 percent in the past decade and was the biggest share of its $1.9 billion of payments out of state.

The obligations weaken the argument that defined-benefit systems prop up local economies as workers retire. The payments to 34,374 Sunshine State residents mirror a migration south to Florida, which last year overtook New York as the third-most-populous state.

"The one group of people who absolutely are taking money from New York with them are government retirees," said E.J. McMahon, president of the Empire Center for Public Policy, a research group that advocates less government spending. "That check from the state goes wherever they are."

Swelling Obligation

New York's pension commitments have swelled about 80 percent in the past decade and are set to keep increasing, McMahon said. Moody's Investors Service estimates that mounting retiree costs have left the 25 largest U.S. public pensions with about $2 trillion in unfunded liabilities.

For states struggling to catch up after shortchanging pensions during the recession, failing to retain retirees is a missed opportunity. That includes Illinois, which faces a $2 billion budget gap and $111 billion in unfunded pension liabilities.

The retirement system for Illinois state employees, which has about 34 percent of assets needed to cover projected liabilities, pays 1,258 former workers living in Florida, according to financial documents. That's out of about 5,900 retirees living outside Illinois.

Only seven states were better off than New York in funding their pensions as of 2013. New York had an 87.3 percent funded ratio, down from 105.9 percent in 2008, data compiled by Bloomberg show. The median was about 69 percent in 2013.

401(k) Debate

Comptroller Thomas DiNapoli, sole trustee for New York's pension, has used the cash retirees receive — and spend — as justification for maintaining a defined-benefit plan, even as companies adopt 401(k)-style approaches in which employees shoulder investment risk.

"Defined-benefit pensions help to stabilize our state's economy," DiNapoli wrote in a February 2012 op-ed in the New York Daily News. “The more than 1 million members, retirees and beneficiaries of the state and local retirement system are taxpayers, too.”

The following month, the legislature passed pension changes, raising the retirement age for most new workers and offering a 401(k)-type option to some nonunion employees.

Almost all states have enacted tweaks to their plans since 2009 to cut costs and ensure adequate contributions, according to the National Conference of State Legislatures.

DiNapoli’s stance hasn’t changed since 2012, said Nikki Jones, a spokeswoman. The comptroller’s office declined to comment further, Jones said.

Southern Comfort

In fiscal 2014, one in five recipients of New York pension payments lived elsewhere, financial documents show. About 38 percent of out-of-state benefits went to Florida.

Florida’s population grew by 293,000 in the year ended July 1, 2014, to 19.9 million, while New York added 51,000 to 19.7 million, Census data show.

Florida receives the biggest share of people leaving New York, with about 55,400 residents migrating to the Sunshine State in 2013, Census data show.

“It’s emblematic of the Snowbelt-to-Sunbelt movement,” said William Frey, a demographer at the Brookings Institution in Washington. “In some respects, Florida is not a southern state. It’s almost a New York appendage.”

The same trend holds for the flow of retirees: New York has 1,143 beneficiaries of the Florida Retirement System, less than Alabama and Tennessee, financial documents show.

Tax Appeal

Florida’s appeal goes beyond warmer winters. While New York ranked highest in terms of its residents’ state and local tax burden as of fiscal 2011, Florida, with no income tax on individuals, placed 31st, according to the Tax Foundation in Washington.

Union leaders say the departures wouldn’t justify overhauling pensions.

“There will always be some percentage of retirees from all walks of life who will be lured by the weather and leisure life of the Sunbelt,” Stephen Madarasz, a spokesman for the Civil Service Employees Association, New York’s largest public-worker union, said by e-mail.

The cash influx is a windfall for Florida and its localities, which are rebounding from a housing-market collapse that left the state with the highest foreclosure rate in the nation and a default rate of more than 80 percent on bonds sold to finance new development.

Recruiting Trail

Governor Rick Scott, a 62-year-old Republican re-elected to a second term in November, touted the population gains during his inauguration Jan. 6.

“When people move here, they spend their money here, they bring their businesses here, they support our charities and they create more jobs and opportunities for others,” Scott said in his speech.

“Over the next four years, I will be traveling to your states personally to recruit you here,” he said, addressing residents of New York, Illinois, California and Pennsylvania.

Florida has competition in attracting New Yorkers. Georgia, South Carolina and Texas have seen pension payments to New York transplants more than double since 2005.

The payments from New York’s largest pension to Floridians approaches the $723 million earned by 9,780 financial analysts employed in Florida, according to Labor Department data from 2013.
Deb Peterson, 64, lives in Melbourne on the Atlantic Coast and spends her pension from the New York teachers’ fund traveling and volunteering. She retired to Florida with her husband in 2005 after 33 years as a music instructor in the Hudson Valley.

“We’ve explored a lot of areas, and we found our niche right here,” Peterson said, highlighting the weather, health-care options and relatively low cost of living.
As more of her peers born between 1946 and 1964 move to warmer climes, their new home states will benefit, said Frey at Brookings.

“A lot of Baby Boomers are going to retire over the next 15 years, and if they follow these same patterns it’s going to be a win for Florida and a loss for New York,” Frey said.

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