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As New Yorkers Live Longer, Cuomo Seeks Pension IOU: Muni Credit.

(Bloomberg) — New Yorkers are living longer, which is good news for the state's 19.7 million residents. For Governor Andrew Cuomo, it's triggering a budget headache.

The fiscal strain emerged in September, when Comptroller Thomas DiNapoli factored in longer life expectancies for retirees in the third-largest U.S. public plan, as actuaries estimated that pensioners would be around at least an extra two years. The longer lives raised the $176.8 billion fund's liability, boosting the 2016 pension bill to $355 million more than Cuomo had projected.

The added cost has Cuomo, a second-term Democrat, tapping a program allowing the state and its municipalities to borrow part of their annual pension bill from the fund with interest. Since 2011, Cuomo has used the tool to defer about $3.2 billion in payments. While he'd planned to exit the program in 2016, the budget he introduced last month includes borrowing $395 million for that year.

"Amortization takes volatility out of the state's pension contribution costs and helps us maintain stability," Morris Peters, a spokesman for Cuomo's budget division, said via e-mail.

Swelling Liability

Since Cuomo took office in 2011, he's closed more than $12 billion in budget gaps, capped annual spending growth at 2 percent and won the state's first four consecutive on-time budgets since 1977. The moves spurred Standard & Poor's to award the state a AA+ mark in July, its highest since 1972. Yet the company also said the pension borrowing is swelling the state's unfunded retirement liability.

Most municipalities are dealing with similar fiscal strains. U.S. state and local retirement plans are short at least $1.3 trillion because of investment losses triggered by the recession that ended in 2009 and insufficient contributions, according to Federal Reserve data.

To help public and corporate pensions estimate costs, the Society of Actuaries last year released a new scale that predicts the rate at which life expectancy will increase over decades. As the method is adopted, liabilities will rise by a range of 4 percent to 8 percent, said Dale Hall, the Schaumburg, Illinois-based group's managing director of research. The society is the largest group of financial-risk assessors.

Corporate Takeover

Investors in companies such as AT&T Inc. and Northrop Grumman Corp. have gotten a glimpse of the fallout from aging societies as they incorporated new life-expectancy estimates. Companies including Motorola Solutions Inc. are paying insurers to take over their plans to avoid ballooning costs from years of additional pension checks.

In New York, investment losses led annual contribution rates to almost triple from 2010 to 2014 for state and local workers. The 2010 law allowing the payment deferments was designed to smooth out the jump by spreading it over a decade.

While only seven states had stronger pensions than New York as of 2013, its funding ratio isn't as robust as it once was. The fourth-most-populous state had 87.3 percent of assets to meet obligations, down from 105.9 percent in 2008, data compiled by Bloomberg show. The median was about 69 percent in 2013.

Extra Years

The society's new mortality scale was its first revamp in 15 years. From 2000 to 2014, the life expectancy for 65-year-old American men rose 2 years to 86.6, while for women it climbed 2.4 years to 88.8, according to the society.

Before adopting the new scale, New York had been using the version released by the society in 2000. "Mortality rates have been improving faster than the last study predicted," said Bill Hallmark, who leads the public plans subcommittee for the Washington-based American Academy of Actuaries, which consults for policy makers.

Based on advice from the state actuary to adopt the new scale, DiNapoli set the contribution rate for state and local workers for fiscal 2016, which starts April 1, at 18.2 percent of payroll. The Cuomo administration was expecting 14.2 percent, according to budget documents. The difference raised the fiscal 2016 pension bill by about $355 million, to about $2.2 billion.

DiNapoli, the sole trustee of New York's retirement fund, didn't see many options, said Thomas Nitido, deputy comptroller for the New York State and Local Retirement System.

"We were mindful that this had an impact on rates, but anything we don't pay now will only increase costs in the future," he said.

While the deferments hurt New York's credit profile, the approach is preferable to forgoing payments, said Marcia Van Wagner, an analyst at New York-based Moody's Investors Service.

"Many states, as a matter of routine, do not pay their full actuarially designated contribution and they don't have a formal payback program," she said by phone. "We don't see it as weakening New York substantially relative to its peers."

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