
New York Cuts Pension IOUs for First Time Since '11: Muni Credit

(Bloomberg) — For the first time in four years, New York and its localities are borrowing less to cover retirement contributions as rallying investments ease the strain of pension costs.

The state and its communities are poised to borrow at least $952 million from New York's $176.8 billion pension fund in 2015 to make required payments into the system, marking a drop of about 30 percent from last year's record, according to preliminary data from Comptroller Thomas DiNapoli and some localities. Among suburban counties such as Westchester, some declines are even steeper, at 40 percent or greater.

The IOUs are part of programs that let the governments defer pension expenses for as long as 12 years with interest. DiNapoli implemented the system starting in 2011 to offset rising contribution rates, which almost tripled for state and local workers by 2014. With stock indexes reaching record highs, assets in the state retirement fund have swelled, requiring smaller contributions from localities.

"If you're amortizing pension payments, your budget is structurally imbalanced," said Valentina Gomez, a Moody's Investors Service analyst in New York. "So if you're amortizing less, that's a good thing."

Rating Divergence

From California to New York, pledges to retirees have stressed municipal budgets. 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 inadequate contributions, according to Federal Reserve data.

Even as Standard & Poor's raised New York's grade to its highest since 1972 in July, rating companies have reduced the marks of New York City's suburbs, citing the pension loans as a sign budgets aren't balanced. The deferrals are also inflating the state's unfunded retirement liability, the companies say.

This year's drop in borrowing to meet those obligations signals that the pressure is ebbing, said Thomas Nitido, deputy comptroller for the New York State and Local Retirement System, the third-largest U.S. public fund.

"As the economy improves and pension contribution rates have begun to decline, fewer employers are opting to participate in the program," Nitido said via e-mail.

Record Assets

The comptroller, the fund's sole trustee, sets contribution rates annually based on actuarial assumptions that move the system toward full funding. The rate for 2015 for state and local workers is 20.1 percent of payroll, after peaking last year at 20.9 percent, the highest since 1974.

Assets in the system set a record in the fiscal year through March, led by a 22.3 percent return on domestic equities. As of 2013, only seven states had stronger pensions than New York. New York had 87.3 percent of assets needed to meet obligations, down from 105.9 percent in 2008, data compiled by Bloomberg show.

New York's pension bill is set to fall to $2.4 billion in 2015 from $2.7 billion in 2014, according to budget documents. The state still needs to defer payments because the contribution rates remain elevated, said Morris Peters, a spokesman for Governor Andrew Cuomo's budget division.

Exit Plan

Cuomo had planned to exit the borrowing program in 2016, then decided not to after DiNapoli adopted longer life expectancies for retirees, increasing the fund's liabilities.

The state's IOU is falling 24 percent to $713 million, according to budget documents.

Suburban Westchester, with almost a million residents north of Manhattan, entered the program in 2013 when it faced the possibility of firing 420 workers so it could pay its full obligation, said Ned McCormack, a spokesman for County Executive Rob Astorino.

Moody's lowered Westchester's rating to one step below the top in November 2013, citing the borrowing for retirement bills.

The county is deferring 27 percent of its $97.2 million bill, down from 42 percent in 2014, when its tab was $104.3 million, according to data from DiNapoli's office.

"We always want to amortize as little as possible," McCormack said by phone.

Suffolk County, home to the Hamptons beach towns, plans to reduce pension borrowing by 31 percent in 2015, according to Justin Meyers, a spokesman for County Executive Steve Bellone.

Tax Bump

Nassau, which borders New York City on Long Island and is under a state financial control board, is using a projected extra $50 million in sales-tax collections for 2015 to lower its borrowing by about 14 percent to $60.8 million.

The county's total bill declined 2.4 percent to about $209 million, according to DiNapoli's data.

Rockland County, northwest of Manhattan, is spending a $5 million surplus from sales-tax collections on its pension bill, further reducing borrowing, said Stephen DeGroat, the finance commissioner.

Its IOU for 2015 fell by more than half to about $6 million, DeGroat said. Next year, the county may forgo the deferral altogether, he said.

"It'd be a good thing to get out of," he said.

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