THE COUNCIL OF THE CITY OF NEW YORK
FINANCE DIVISION

LATONIA MCKINNEY, DIRECTOR
FISCAL IMPACT STATEMENT

PRECONSIDERED M A.7854-B (Sepulveda)
S. 5705-B (Krueger)

COMMITTEE: State and Federal Legislation

TITLE: An act to amend the retirement and social security law, in relation to disability benefits for certain members of the New York city police pension fund, the New York city fire department pension fund or the New York city employees' retirement systems.

SPONSOR(S): Council Member Koslowitz

SUMMARY OF LEGISLATION: This legislation would enact a change to the accidental and ordinary disability retirement benefits offered to members of the Police and Fire pension systems, and to correction officers and sanitation workers who participate in the New York City Employees' Retirement System (NYCERS). It would impact all workers hired under, respectively, Tier III and modified Tier III for the police and fire systems and Tier VI for NYCERS; collectively referred to herein as Tier III/VI.

A recipient of City disability benefits would receive greater benefits under the proposed legislation than under current Tier III/VI rules in two key circumstances. First, accidental disability retirement benefits would be greater for those who become disabled early in their careers. Under the change, a given pension would be based upon the higher of two figures: the final average salary for five years of employment ("FAS5") <u>or</u> a salary floor, referred to as a "basic maximum salary" and generally the equivalent of what someone would earn in his or her sixth year on the job. This basic maximum salary clause does not exist in the current Tier III/VI.

Second, those disabled severely enough to qualify not only for City accidental disability retirement but also for federal Social Security Disability Insurance (SSDI) would receive 75 percent of FAS5 without a partial deduction for SSDI, more than the 50 percent with an SSDI under current Tier III/VI rules. Federal SSDI carries a higher threshold of qualification than City disability; its recipients cannot engage in any employment of substantial gainful activity due to medical determinable physical or mental impairment.

The cost of living index currently in Tier III/VI is referred to by the Administration as "escalation." It would revert under the proposal to a less-generous cost of living adjustment ("COLA") previously used in other tiers, which only applied to the first $18,000 in benefits, often amounts to less than the consumer price index, and has a five-year delay before taking effect.

The proposed legislation would also guarantee that in no event would the annual benefit received by an individual be less than what one would be entitled to under Tier III/VI.

EFFECTIVE DATE: This act would take effect immediately.

FISCAL YEAR IN WHICH FULL FISCAL IMPACT ANTICIPATED: Fiscal 2017

FISCAL IMPACT STATEMENT:

(millions)	Effective FY16	FY Succeeding Effective FY17	Full Fiscal Impact FY17
Revenues (+)	$0	$0	$0
Expenditures (-)	$12.2	$15.5	$15.5
Net	$12.2	$15.5	$15.5

IMPACT ON REVENUES: It is anticipated that there would be no impact on revenues as a result of this legislation.

IMPACT ON EXPENDITURES: It is anticipated that this legislation would increase expenditures. The Administration estimates the Fiscal 2016 cost could be $12.2 million.[1] The cost would increase over time.

The City's pension costs manifest themselves through annual contributions to its five pension systems. Those contributions amount to over $8 billion annually, and this legislation would increase that expense in the short run. The true cost of disability pensions are the benefits paid to those who qualify. The Actuary's office estimates the number of currently employed police and fire officers hired who are likely to qualify for a disability pension sometime during their working lifetime. The Actuary's office then estimates the City's required annual contributions to the pension funds over the expected working lives of those workers. The Administration estimates this legislation would increase the required future employer contributions, when expressed in actuarial present value terms, by $600 million over a five year period. Under discounting methodology, this increases the City's actual need to contribute today to the annual figures above, and to a total of $104.6 million over five years.

The City has not been contributing to pensions systems at the rates calculated by the Actuary under this proposal. This creates an unfunded accrued actuarial liability that must be funded, which is accounted for in the Actuary's cost estimate.

SOURCE OF FUNDS TO COVER ESTIMATED COSTS: General Funds

SOURCE OF INFORMATION: New York City Council Finance Division
New York City Office of the Actuary
New York City Office of Management and Budget

ESTIMATE PREPARED BY: Christopher Eshleman, Senior Legislative Financial Analyst

ESTIMATE REVIEWED BY: Raymond Majewski Deputy Director, New York City Council Finance
Rebecca Chasan, Assistant Counsel, New York City Council Finance Division
Tanisha Edwards, Chief Counsel, New York City Council Finance Division

HISTORY: This bill will be considered by the Committee on State and Federal Legislation as a Preconsidered Mayor's Message on June 10, 2015. Following a successful vote by the Committee, the Preconsidered MM will be introduced and voted on by the full Council on June 10, 2015.

[1] The difference between the low and high estimates is due to the Social Security Disability deduction discussed on page 1.

DATE PREPARED: June 10, 2015