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REPORT: NY TEACHER PENSIONS SHARE U.S. UNDER-FUNDING WOES

All 59 of the public retirement systems covering most teachers in the United States – including both of New York’s – face pension obligations far greater than they admit, according to a newly issued study from the Manhattan Institute for Policy Research and the Foundation for Educational Choice. The study estimates the total unfunded liabilities of the nation’s teacher plans at \$933 billion, nearly three times the officially acknowledged shortfall, including a funding gap of more than \$60 billion in the two New York systems.

The study, entitled “Underfunded Teacher Pension Plans: It’s Worse Than You Think,” says current government accounting standards have allowed teacher pension funds across the country to overstate their ability to make good on pension promises to active and retired teachers.

“The funds aggressively ‘discount’ the cost of paying benefits in the future because they assume that stocks’ values will be much higher by the time the funds have to pay out those benefits,” the study says. “This assumption permits public officials to contribute fewer dollars toward satisfying these plans’ obligations, and thus to avoid taking the cautious but unpopular step of raising taxes or cutting services.”

The study’s authors are Josh Barro, Manhattan Institute’s Wriston Fellow for state and local fiscal policy, and Stuart Buck, a lawyer and doctoral candidate at the University at Arkansas Department of Education Reform. Barro and Buck developed a table presenting the official estimate of “funded status” for every state and alongside of their estimates of unfunded liabilities using two more conservative asset return assumptions. Their findings included the following:

- The New York City Teacher Retirement System (NYCTRS) has a funding shortfall of \$35.9 billion, nearly twice its officially estimated shortfall of \$16.8 billion – meaning the fund has less than half the assets it needs to meet future obligations.
- The New York State Teachers Retirement System (NYSTRS), which officially estimates its funded status at 107% of needed assets, is actually \$24.8 billion short of what it needs to meet its obligations. However, Barro and Buck found the NYSTRS was one of only five plans to be at least 75% funded using the study’s more conservative assumptions.
- The California teacher pension system has the largest unfunded teacher pension liability, estimated at \$98 billion.

Growing teacher pension obligations mean that “schools unfortunately will have to compete with retirees for scarce dollars” in the future, Barro and Buck write, adding: “This competition is uneven, because retirees have a legal claim on promised pension benefits that supersedes schools’ budgetary needs. Consequently, Americans can look forward to higher taxes and cuts in services, resulting in fewer teachers, bigger classes, and facilities that are allowed to deteriorate.”

The Manhattan Institute is one of the nation’s leading non-profit, non-partisan think tanks. The Foundation for Educational Choice – the legacy foundation of economists Milton and Rose Friedman – is a non-profit organization dedicated to research, education, and promotion of the vital issues related to choice in K-12 education as well as their implications.

The complete study is posted at http://www.manhattan-institute.org/html/cr_61.htm

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