New York City public employee pension funds in danger of “operational failure”

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In late January, Scott Stringer, the New York City comptroller, released a report warning that the city’s retirement system, which provides for the pensions of city employees, is in an extremely precarious condition. According to the report prepared by an outside consultant commissioned by Stringer, the pension system, composed of five individual funds, is vulnerable to an “operational failure.” Back in 2014, when he first took office, Stringer had already characterized the system as “hanging by a thread.”

The city’s retirement system is the fourth largest in the country, covering 715,000 individuals, and manages $160 billion in assets. It is projected that the cost of retiree pensions will increase significantly in the coming years, as more workers retire and many live longer. Payments last year were approximately $8.7 billion but are expected to rise to over $10 billion by 2020.

While the comptroller’s report identifies a number of organizational difficulties, including inadequate staff and reliance on antiquated technology, the fundamental problem is that this and other pension systems rely on investments that are subject to the fluctuations of the financial markets. Pension funds took a substantial hit in the aftermath of the 2008 crash.

While the huge inflow of money into the markets, due to the Federal Reserve’s “quantitative easing” policy, artificially inflated stock market prices—and consequently the returns on pension fund investments—for several years, the effects of that program are rapidly declining. Hence, these funds are again suffering substantial losses.

The targeted return on investments of pension funds by the city (i.e., the rate needed to maintain financial stability) is seven percent. However, last year it was less than half that, at 3.4 percent. So far this year, the fund has actually lost money, due to the downturn in the financial markets.

The total dependence of the city’s pension funds on the state of the capitalist economy is clearly reflected in the historical fluctuations in rates of return. In 2007, just before the financial crisis, the rate was 18.2 percent. By 2009, at the height of the crisis, it went sharply negative, to -18.3 percent. The subsequent Wall Street bailout led to a resurgence, reaching a peak of 23.2 percent in 2011. This was entirely temporary and artificial. As indicated, the trend is now dramatically downward.

The impending sharp intensification of the world economic crisis will substantially worsen this situation. As predicted in a recent comment in *Crain’s New York Business*: “Then there will be the crunch when the recession comes, whenever that day arrives. Tax revenues will decline, and probably aid from Albany [the state capital] too, as the state faces its own budget squeeze.” This will, inevitably, renew previous calls for attacks on city worker pensions.

Pension funds in New York City and around the country have, in recent years, placed significant portions of their investment portfolios in risky hedge funds and private equity firms, based on their promises of high yields. However, the returns have not lived up to expectations. In addition, the high fees charged for their services have further reduced revenue.

An earlier report by the New York City comptroller’s office revealed that, over the last decade, private fund managers had been paid billions of dollars in fees, yet failed to meet revenue targets. During the 10-year period, the pension funds actually lost, due to the exorbitant fees, nearly all of the extra $2.5 billion that otherwise would have accrued from the surge in the stock market. Effectively, these private firms were being handsomely rewarded to gamble with the city workers’ retirement funds while not doing the job for which they were hired. The pension money “management” was simply another revenue stream for Wall Street.

New York’s “progressive” Democratic mayor, Bill de

Blasio, who has been vocal about urging the city's pension funds to divest from fossil fuel companies, has so far made no statement regarding the fiscal crisis that they face. In his State of the City address, de Blasio announced that his proposed budget includes an additional $600 million contribution to the pension funds, an amount that is in no way sufficient to compensate for the losses being experienced.

Public pension systems are underfunded and facing attack in states and municipalities across the country—from Rhode Island, to Pennsylvania, Michigan, Illinois, California and many others. In case after case, the concept of "shared sacrifice," used as a justification to loot workers' retirement funds following the 2008 financial crisis, is being resurrected in order once again to protect the interests of wealthy bond holders while placing the burden of the capitalist crisis on the working class.

The enforced bankruptcy of Detroit, for example, included significant reductions in public worker retiree pensions, with the collaboration of the unions, despite state laws prohibiting such actions. This created a precedent for an onslaught against public pensions across the country. (See "Detroit bankruptcy ruling paves way for nationwide attack on pensions")

In another example of the crisis facing public pension funds, substantial declines in investment returns have been experienced in New Jersey. During the fiscal year that ended last June 30, returns fell to 4.16 percent, a sharp reduction from 16.87 percent realized in the previous year, according to a state report. So far, during the current fiscal year, the fund's returns have registered negative three percent. The rate needed for the New Jersey fund's stability is estimated at 7.9 percent.

The earlier high rates of return were based on risky investments, which have now suffered substantial declines and, as in New York, returns are being further depressed by the payment of large fees to outside managers. The New Jersey public pension system had already been underfunded by tens of billions of dollars for decades due to the failure of the state to make its full required contributions.

There are currently nearly 780,000 individuals covered by the New Jersey pension system. In 2011, in the aftermath of the financial crisis, worker contributions had already been raised and benefits cut in a bipartisan attack led by Republican Governor Chris Christie, who had threatened to continue to withhold mandatory state payments into the fund in order to reduce the state budget deficit.

The wealthy elite view any expenditure that detracts from their maximization of profit as illegitimate. While at the height of the postwar boom pensions were seen, at least by many corporations, as a necessary part of a worker's compensation, in recent decades these have been substantially reduced or converted into further opportunities to extract value from workers (e.g., 401k plans). Now, public sector worker pensions have increasingly come under attack as well, in order to provide tax cuts and guarantee returns for bondholders.

Millions of retired workers don't have pensions at all other than the miserly payments they receive from Social Security. In New York City, only 43 percent of residents have access to any sort of retirement plan, aside from Social Security. The future of even the latter is in danger due to proposals to privatize the system.

The attack on pensions is a worldwide phenomenon. Currently in Greece, the pseudo-left Syriza government is carrying out the dictates of international bankers to implement another round of cuts to pensions. This is being met with major opposition from the working class.

The pensions of retirees in New York City, the rest of the country, and around the world, which already took a significant hit following the 2008 financial crisis, are now in even greater danger. After working for decades and looking forward to a well-earned retirement, hundreds of millions of people are threatened with immiseration in their elder years due to the giant gambling casino that is the capitalist financial system. This threat can only be averted by the replacement of capitalism by socialism, under which all workers will be guaranteed a decent retirement.

The comptroller report is available here.