Worries over pension

Volatility in the stock market fuels concerns for massive state fund

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ALBANY — The last time the stock market was roiled by the volatility that it has been experiencing recently was the beginning of the 2008 recession, which left the massive state pension system bruised and turning to local property taxes to make up for losses.

Some experts fear that unless the current stock market settles, local governments, schools and their taxpayers could face another increase in employer contributions such as the 37 percent hike ordered in 2010 by the state comptroller to offset stock market losses. That translated to $400 million more from taxpayers statewide in 2012 alone to the state pension fund.

The state constitution guarantees that the pension of a public sector worker can't be reduced or taken away and so taxpayers must help make up any losses. That differs from private-sector workers with company-provided pensions, which can be reduced or eliminated by employers.

The Dow Jones Industrial Average hit 15 historic highs during 2018 fueled by an economic recovery that turned into an expansion and by President Donald Trump's tax cuts for corporations and most middle-class families. But high times turned chaotic: The Standard & Poor's 500 index was down 9 percent in December, the worst December since the Great Depression in the 1930s, and the Dow ended the year down 5.6 percent, the worst performance since 2008. On Thursday, for example, the Dow fell 660 points; on Friday it rose nearly 747 points.

In addition to concerns about the state pension system, thousands of public workers who also chose to invest in an additional supplementary retirement account called the state Deferred Compensation Plan could lose money because it doesn't compensate for Wall Street losses. Workers who take out these accounts, which are similar to 401(k) accounts for private sector workers, defer some of their wages until they retire, when they presumably would be taxed at a lower rate.

"People are very anxious," Jerry Laricchiuta, president of the Civil Service Employees Association said about workers in the Deferred Compensation Plan. "Some of these people actually depend on their deferred compensation as the main tool of their retirement . . . This is what they've been saving up for . . It really comes down to when you choose to retire. How's the market doing? Did it just kill you? Did you just lose $20,000 or did you just gain $20,000?"

In Nassau County alone, there are 9,750 participants with $1.258 billion in assets at the end of December 2016, according to recent financial statements. The state couldn't provide comparable Suffolk numbers.

For now, state and local government and school district officials are watching the up-and-down market carefully.

The last spike in local government and school district contributions to the pension fund generated more pressure to raise local property taxes, lay off workers and cut services such as parks in towns and programs in schools. Local officials say the state's 2 percent cap on the increase in property taxes reduces their options unless they get voters to override the cap.

Whether that pain is likely to be repeated, however, won't be known until March 31, the end of the state fiscal year. And experts agree the stock market could rebound and stabilize over the next three months.

"Daily, monthly, and even quarterly fluctuations can be nullified by the valuation on March 31," said David J. Friefel, director of state studies for the independent Citizens Budget Commission. "Likewise, because contribution rates are based on the five-year average rate of return, impacts of changing contribution rates will be gradual, but felt over a long period of time."

The view from Wall Street was similar.

"The most significant question for any pension fund when it comes to their assets is what is the value of the assets on the [end] of the fiscal year," said Douglas Offerman, senior director at Fitch Ratings, a Wall Street bond-rating agency.

E.J. McMahon of the fiscally conservative Empire Center think tank, said short-term volatility will have minimal effect, but "a prolonged slump, or a much sharper stock market drop — say, losses of 10 percent more in next three months, persisting through June — would probably lead to renewed increases in taxpayer costs within the next year or two."

"It's a pretty critical time," said Greg Mennis, director of public sector retirement systems project at the Pew Charitable Trusts that evaluates state pension systems. "Most experts are forecasting lower economic growth than we've seen in the past . . the exposure is as high as it's ever been."

"It's true the New York state funds are some of the best funded state pension funds in the country," Mennis said of the fund managed by Comptroller Thomas DiNapoli. "But at the same time, the investment strategy of about 50 percent or more in stocks means that, like most other funds, they are going to have to navigate market volatility."

Later this year, DiNapoli will have to set the employer pension payments paid by local governments for 2021, after lowering rates in 2018 and holding them flat for 2019 and 2020.

The state comptroller's office expects to report a big drop off in stock investments in its quarterly report in February. But a bad quarter doesn't mean a bad year and the office remains hopeful the pension's diversified revenue — including real estate and less volatile bonds — will steady.

"The volatility came as something of a surprise along with the continued duration of the volatility," DiNapoli said in an interview. He said while market downturns often precede a recession, that's not always the case. He said about 55 percent to 60 percent of the pension is now invested in stocks.

"Where we stand today, this is not '08 or '09," DiNapoli said, referring to the beginning of the most recent recession. "Will it be by March? I hope not. But right now, we aren't talking about a year like that."

DiNapoli said federal policy and Trump's tweets and other public statements are part of what is driving the market, but noted that if the Trump administration settles on accord with China, Wall Street might settle down.

"The unpredictability of what comes out of the White House certainly continues the volatility of what we are seeing and seems to be driving the psychology right now," DiNapoli said. "But we go into this in a position of strength . . .we have full confidence in our asset allocation."

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> — Jerry Laricchiuta, president of Civil Service Employees Association