Choosing Your Pension

A Permanent Decision

Pensions probably don’t top the list of concerns for most newly-hired CUNY faculty and staff. Yet within 30 days of their start date, new full-time CUNY employees must choose between two radically different pension plans. The decision is irrevocable, and making a wise choice requires careful consideration of several factors.

Your basic choice is between a defined-benefit plan and a defined-contribution plan. CUNY’s defined-benefit plan is provided by the New York City Teachers’ Retirement System, a municipal government agency. The defined-contribution plan is known as the Optional Retirement Program which is currently administered by TIAA-CREF, a national financial services company. Under this program there are alternative funding vehicles for the diversification of your assets after vesting. These include Metlife and Guardian. All three programs are not age appropriate to receive a retirement allowance. TRS participants are vested once they have five years of TRS credited service. TRS pensions probably don’t top the list of concerns for most newly-hired CUNY employees with TRS pensions.

The history of ORP investments suggests that over a 25-year period, the value of a pension in the ORP is likely to exceed the value of a TRS pension. This consideration may be especially important for new employees who are receiving a pension and who have at least 10 years of service credit can keep their City of New York health insurance and the benefits provided through the PSC/CUNY Welfare Fund. ORP participants may retire at any age but can only maintain their health benefits if they have 15 years of continuous, fulltime service at CUNY. In addition, these health benefits take effect only when the retiree is 62 or older.

THE BASICS: TRS

The NYC Teachers’ Retirement System (TRS) guarantees retirees a fixed monthly pension payment for life, with small, periodic cost-of-living adjustments. There are no fluctuations based on investment returns. Retirement allowances are calculated using formulas based on years of service and highest annual earnings.

A TRS pension is funded by both employee and employer contributions, but the employer contribution is much larger. However, an employee participating in TRS does not see CUNY’s contribution in a separate account in his or her own name. Instead, CUNY makes lump-sum payments to TRS based on actuarial calculations made for all CUNY employees with TRS pensions.

CUNY employees in TRS contribute 3% of their gross salary to TRS for 10 years. These contributions are not federally taxed. After 10 years, employees no longer make contributions.

THE BASICS: ORP

In the Optional Retirement Program (ORP), there is a retirement account in the employee’s name that is funded by both employer and employee contributions. Employees contribute 3% of their gross pay for the entire time that they work at CUNY and do not pay federal taxes on this money. At the same time, CUNY makes contributions equal to 8% of gross pay during the first seven years that an employee is at the university; from the eighth year on, this contribution is increased to 10%.

The employee decides how money in this retirement account is invested. Investment choices include stock, bond, fixed-rate and real estate funds managed by TIAA-CREF. Under the Optional Retirement Program an employee may also choose to invest in Metlife or Guardian investment fund options after the employee has completed the vesting period with TIAA-CREF. A retirement account may be invested in several different funds, and employees may periodically change their allocations among different accounts.

An ORP pension is funded by the amount of money in the individual employee’s account. There is no way to predict how much the account will be worth at retirement because investment values change constantly.

VESTING

What does vesting mean? When you are vested, the contributions made by you and your employer remain in your account regardless of where your future employment takes you. This is true even if you do not wish to begin receiving a retirement allowance immediately, or are not age appropriate to receive a retirement allowance. TRS participants are vested once they have five years of TRS credited service. ORP participants are vested after they have worked at CUNY for 366 days; vesting is immediate for those who come to CUNY with an active TIAA-CREF retirement plan contract from a previous employer. Employees who leave CUNY before meeting the vesting requirements will get back their own contributions to their retirement account and any interest that has accrued to the account.

RETIREMENT AGE AND HEALTH INSURANCE IN RETIREMENT

TRS participants become eligible to retire with an unreduced pension once they are 62 years old. They may also retire with an unreduced pension if they are 55 years old and have at least 30 years of credited service. TRS members between 55 and 61 who do not have 30 years of service can retire with a reduced pension. All TRS participants who are receiving a pension and who have at least 10 years of service credit can keep their City of New York health insurance and the benefits provided through the PSC/CUNY Welfare Fund.

ORP participants may retire at any age but can only maintain their health benefits if they have 15 years of continuous, fulltime service at CUNY. In addition, these health benefits take effect only when the retiree is 62 or older.

PRIOR NEW YORK CITY AND STATE SERVICE

TRS participants can get pension credit for any work done for the City or State of New York before they became full-time CUNY employees. ORP participants do not have this option.

PORTABILITY

ORP participants in TIAA-CREF can continue their TIAA-CREF accounts if they leave CUNY for another employer that provides TIAA-CREF pensions. TRS pensions can be transferred to other New York City and State retirement systems but cannot be transferred to private or out-of-state employers.

LEAVING MONEY TO BENEFICIARIES

ORP participants can leave the entire balance of their accounts to their beneficiaries when they die in service. TRS participants may also designate beneficiaries who will receive a benefit of up to three years salary upon their death in service.

MAKING THE CHOICE

So which plan is better for you? Age is one key factor in the decision. The history of ORP investments suggests that over a 25-year period, the value of a pension in the ORP is likely to exceed the value of a TRS pension. This consideration may be especially important for new employees in their 20s and 30s. Older starting employees may give greater weight to the fact that TRS participants can keep their health insurance in retirement after just 10 years on the job.

Prior work history is another factor. A new full-timer with many years of adjunct service or other work for a New York City or State agency can get TRS pension credit. A new full-timer who already has an active TIAA-CREF retirement plan contract from another institution can vest immediately.

ORP and TRS pensions also differ in some ways regarding loans and disability payments. Your campus Human Resources office has a brochure that explains these details.

CHOICE IS FINAL

This choice is irrevocable and this decision, by law, must be made within 30 days of your start date. You can contact the PSC (at 212-354-1252) if you would like to discuss your decision with a pension advisor or see your college’s HR office for further information.

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