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FEATURED

A Key Guardian of City's Fiscal Health

## Actuary's Office Marks 100 Years As Beacon Lighting Way for City Pensions

By SARAH DORSEY 17 hrs ago



The Chief-Leader/Ellen Moynihan

**SERVING THE PUBLIC SERVANTS:** Chief Actuary Sherry Chan May 16 acknowledged the many accomplishments of her predecessors at a 100th anniversary celebration for her department. Former Chief Actuaries helped develop the very science behind pension-funding methods, created the Variable Supplements Fund for cops and firefighters, helped steer the city out of its financial crisis, and made the office an independent entity.

Sherry Chan acknowledges that she hesitated at first before accepting the job of Chief Actuary.

Ms. Chan has just completed her one-year anniversary at the helm of an office that's as vital to public employees as it is unknown to many of them. She safeguards their pension funds by advising the Mayor how much to put aside each year to keep the five retirement systems healthy.

**Marking Centennial**

It's a science that the city's first Chief Actuary, George B. Buck, helped develop.

Ms. Chan will be the first to tell you that—it's one of the reasons why the idea of taking the job was a little intimidating. And on May 16, she went further, gathering the two other living Chief Actuaries and the families of the two deceased ones, to share tales about Mr. Buck and his successors.

The event, held at the agency's office in downtown Manhattan, marked the department's centenary. It is a 100-year span in which the office helped bail out the city during a financial crisis, brought into being Variable Supplements Funds for police and firefighters, and became an independent agency—which many said has been key to its success.

Mr. Buck took office in 1917, at a time when setting aside money for public pensions didn't yet have a sound basis in "actuarial science," the complex art of determining financial risk using statistical and mathematical methods.

"[George Buck] came up with the idea of pre-funding, and also setting up a trust so that other parties could not raid [it] and the money was set aside just for pension benefits," Ms. Chan explained. "That is still used today in 2016."

### **Unique in His Time**

Other speakers remembered Mr. Buck—who served as Chief Actuary until 1956—for more-personal reasons.

"He hired Jews. That was not very common in the '20s and the '30s and the '40s," said Jonathan Schwartz, who led the office from 1974 to 1986. Mr. Schwartz's mentor at age 19 was one of the few Jewish actuaries at the time, and had been hired by Mr. Buck at his private consultancy.

"This had a very meaningful impact on my life," Mr. Schwartz recalled.

Mr. Buck performed for the city what would now be called its first actuarial audit, to determine how to make the pension funds more financially viable, Ms. Chan said. According to a history written in the 1970s and provided by the Chief Actuary Office's historian, Carol Hasday, his appointment couldn't have come at a better time.

"The nine pension funds of the city were in chaotic condition," Margaret Allen Burt, an employee of Mr. Buck's, wrote in 1976. Each pension fund had been established separately, with workers with the strongest political backing gaining the better benefits, Ms. Burt wrote.

### **'Action Was Imperative'**

"Several of the funds, notably that of the teachers, were fast reaching the time when all reserves would be exhausted and there would be no funds to meet the pension roll," she added. "The need for action was imperative."

Along with a commission appointed by two successive Mayors, Mr. Buck helped establish the modern actuarial tools still in use, creating valuation tables and pension formulas. They helped set up a sustainable pension system.

More than fifty years later, Mr. Buck's successor, Jesse Feld, added his own innovation, creating the Variable Supplements Fund, which was given to the city's police and firefighter unions in return for their supporting legislation allowing their members' pension systems to make stock investments. The VSF currently provides a \$12,000 payment every December for retired cops, firefighters and correction officers on top of their pension benefits.

Mr. Feld was known to be verbose, as Mr. Schwartz recalled, sharing an impression of him by a mutual friend. Asked what time it was, he was likely to reply, "Well, that depends. Are we talking Eastern Standard Time or Greenwich Mean Time? And on the subject of Greenwich Mean Time, did I ever tell you about the time that I worked as an extra in a men's shoe store in Greenwich?" By the time he was done, the answer would be, "When you asked me, it was 10:15, but now it's 10:45."

### **Key Figure in Fiscal Crisis**

Mr. Schwartz's own résumé could have led him on plenty of storytelling detours. He is perhaps best known for his work during the city's mid-1970s fiscal crisis. In 1975, when New York was on the brink of bankruptcy, he rushed to Washington, D.C. to ensure passage of a law that allowed the Mayor to dip into the pension funds.

"If that didn't exist, we would've been Detroit right now," Ms. Chan said.

Robert C. North Jr., who served from 1990 to 2014, admitted that he, too, was reluctant to take the Chief Actuary position, and in fact initially turned it down. But Ms. Chan emphasized the benefits of his changing his mind: he fought to make the office independent, for one. Since 1990, it has been its own agency, outside the Mayor's Office. That is not the case in many other municipalities and states.

"That was so that they could not have the influence of people who also had a stake in what their budgets would be like or their benefits would be like," said Tonya Manning, a former president of the Society of Actuaries, who now works for the consulting firm that George Buck started 100 years ago.

She said it allowed Mr. North to give "the actuarial answer versus the political answer."

### **Improved Safeguards**

Properly analyzing how much the city must put aside for pensions may be an overlooked skill, but it's a vital one for both the Mayor and the unions, Ms. Chan noted. She gave credit to Mr. North for switching to a lower "discount rate," a move that increased the value of the pensions' liabilities. In Ms. Chan's estimation, this was key because it helped secure more funding. Many pension systems around the country followed suit.

But such assumptions would be of little value if the city didn't follow the Actuary's recommendations.

"You never read about New York City having a problem with any of their pension plans," Donald Segal, the president of the Conference of Consulting Actuaries, told the 30 or so people crammed into the office's conference room. "I'm from New Jersey," he added, drawing laughs. "I appreciate that."

In an interview, Mr. Segal explained that New Jersey Gov. Chris Christie recently provided just a quarter of the money the Actuary recommended for pensions.

"I mean it's ridiculous because it means what you didn't put away this year has got to be made up in the future," he said, adding that for decades in New York, the city has honored that reality.

"They recognize it's pay me now or pay me later," he said.

### **'Holds Gov't Accountable'**

Thomas Wildsmith, the president of the American Academy of Actuaries, flew in for the gathering, praising the actuary office's "100-year legacy, a heritage of public service and professional excellence."



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Comptroller Scott Stringer presented Ms. Chan with a certificate of commendation, recalling his memories of visiting his father when he worked for then-Mayor Abe Beame during the fiscal crisis. "If you really think about the decisions that were made back then and the work of the Actuary...[it] really has made the city what it is today," he said. "I mean, no one gives the [Chief] Actuary a parade. No one puts the Actuary on 'Meet the Press.' But Comptrollers understand all too well the role that the Actuary plays. They issue a balancing power between a strong Mayor and Comptroller. The Actuary is the one who actually holds the government accountable."

John Adler, Mayor de Blasio's Chief Pension Investment Advisor, seemed to agree, saying that he really had "very few concerns" about the city's ability to pay its liabilities.

### **Independence Key**

"In most other public pension plans, either the Legislature or the Governor or some other public official really decide whether to make the full contribution or not, and as often as not, decide not to" and wind up underfunded, Mr. Adler said.

New York has always made its full contributions—thanks to "the power and independence of the Office of the Actuary," he added.

Ms. Chan sees her role as a way to give back.

"I spent a majority of my career in the public sector," she said, recalling her work as the Chief Actuarial Officer for the Ohio Public Employees Retirement System, and as Chief Actuary for the State Teachers' Retirement System of Ohio.

But the connection goes further back.

"I went to public schools and the Teachers that taught me laid the groundwork for my math background, to be where I am today," she said. She also graduated from the Ohio State University—a public institution—for both her bachelor's and master's degrees.

"And so I'm a beneficiary of and a benefactor to other public servants—and I'm grateful for that," she added.

### **Tier 6 Concern**

As Chief Actuary, Ms. Chan said she wants to make sure that Tier 6 members—the most-recently hired group of workers who pay more into the system and receive smaller benefits—have as much equity as financially possible with their older counterparts.

And she spoke passionately about the very concept of defined-benefit plans like the city's, which provide a guaranteed amount upon retirement.

"There's a lot of bad connotation about DB plans now and how they're underfunded, and how they are too expensive or too generous," she said. "I just think that they need to be managed well."

Ms. Chan acknowledged that some tweaks are necessary, since workers now live much longer. But she cited studies that showed that 401(k) plans are not a "financially-secure-enough safety net." Despite the negative press, she said, "defined-benefit plans are sustainable and can work."

"I want to make sure [they] are promoted properly and to highlight how they can be sustainable," she said. After all, as a Tier 6 member, she, too, will rely upon one someday.

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