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Explainer: The Proposed Restructuring of New York City Pension Payments

On May 12, 2026, New York City Mayor Zohran Mamdani put forward his executive budget proposal for fiscal year 2027, which achieved balance on the back of new revenue, state funding, and savings. Chief among the proposed savings was a restructuring of New York City's pension payments, which would reduce City spending by $1.6 billion in fiscal year 2027 and similar amounts each subsequent year.

These savings would be achieved by smoothing out a bizarre feature of the city's pension payment schedule instituted in 2010, which had required accelerating payments through to fiscal year 2032, at which point the payments would turn *negative* and the pension funds would return money to the City over a seven-year period. The $8.2 billion "contribution cliff" created by this structure was not reasonable fiscal policymaking. The proposed change unwinds this drop off by smoothing payments over an additional five years. It does not—and cannot—affect the pensions owed to City workers or impact the City's ability to meet those commitments.

What payments would be affected?

New York City prefunds its pensions—it deposits the anticipated costs of City workers' pensions into a fund while those workers are employed. As a result, the costs of workers' pensions are incurred while their wages are being paid. Because prefunded pensions are invested in financial markets, the City must make assumptions about the long-run rate of return it expects. These assumptions are factored into its annual pension contributions.

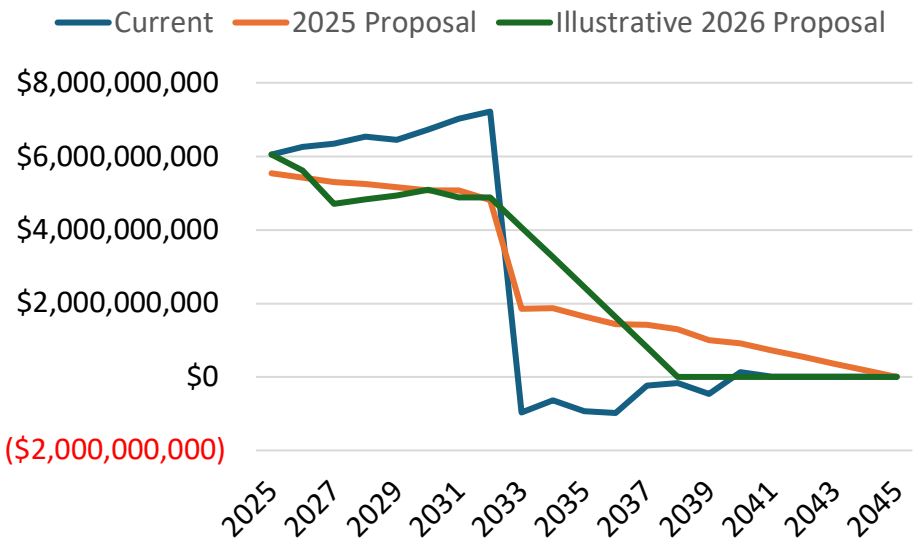
In 2010, amid the fallout of the 2008 financial crisis, New York State, which sets the rules under which New York City pensions operate, lowered the expected long-run rate of return on the City's pension funds. While there were no changes to actual pension costs, this reduction in anticipated earnings significantly increased the total value of pension contributions required of the City. The State created a 20-year payment plan, the "amortization schedule," by which the City could pay down this newly recognized funding need, the Unfunded Accrued Liability (UAL).

What's wrong with the current amortization schedule?

The UAL amortization schedule was poorly designed: it required the City to make fixed escalating payments through fiscal year 2032, after which point UAL payments would not simply fall to zero, but flip *negative*. The pension funds would then be required to return nearly $1 billion to City coffers in fiscal year 2033. This is due to a conflict between the pension payment schedule and the long-run rate of return: while UAL amortization payments are fixed by state law, the investment funds have overperformed in recent years. This overperformance means the City has been overpaying its UAL liability but can only be credited back after fiscal year 2032. In total, the City may *receive* $4.4 billion from UAL payments between fiscal years 2033 and 2039.[1]

The current amortization schedule creates a dramatic "contribution cliff" where $8.2 billion swings from payments to credits in a single year. This is bad fiscal practice. It overburdens current taxpayers by imposing mounting costs on the City over the next six years—to be followed by a historic windfall.
Mayor Mamdani's proposal to change the amortization schedule is not the first. Last year, State lawmakers proposed a far more dramatic re-amortization that would have delayed the full paydown of the UAL by twelve years, to fiscal year 2044. By contrast, the current proposal would extend the paydown by just five years, to fiscal year 2037.

Current UAL amortization compared to 2025 and illustrative 2026 proposals



Note: Details of the 2026 UAL re-amortization have yet to be released. The illustrative version shown here represents FPI's assessment of a possible re-amortization given publicly available information.

[1] Gianpaolo Defelice, "Changes to Funding New York City Pension System Unresolved in Albany," New York City Independent Budget Office, May 19, 2025, https://www.ibo.nyc.gov/content/publications/2025-may-changes-to-funding-nyc-pension-system-unresolved-in-albany.

What would changing the amortization schedule mean for New Yorkers?

The re-amortization of New York City's UAL payments would smooth out costs that are currently set to overburden taxpayers in the near term before whipsawing into payments *to* the City in six years. Reworking this schedule would be an act of prudent fiscal management. In considering its broader effects on New Yorkers, three factors are worth noting.

First, only UAL payments are affected by the Mayor's proposed change. These payments make up only a fraction of the City's total annual contributions to its five pension funds. Payments made toward the *current* pension liability accrued each year are unaffected.

Second, changes to the UAL amortization schedule do not affect the actual pensions to which workers and retirees are entitled. These payments are safeguarded by the New York State Constitution.

Finally, New York City's pensions are already well-funded by national benchmarks. The City's pension funding ratio—the share of total liability for City workers and retirees covered by current pension fund holdings—is 83 percent. This exceeds the US average of 78 percent.[2]

[2] Brad Lander, "New York City Pension Funds' Returns for Fiscal Year 2024," Office of the New York City Comptroller, August 1, 2024, https://comptroller.nyc.gov/reports/new-york-city-pension-funds-returns/.