

PENSION POISON PILLS

By CHARLES BRECHER & MARIA DOULIS

Last Updated: 2:02 AM, April 7, 2009
Posted: 1:52 AM, April 7, 2009

THE cost of retirement benefits for New York City employees is skyrocketing. Taxpayers should pay attention, because you're footing the bill. Here are some facts you should know:

* *Since fiscal year 2003, the annual cost of funding pensions has grown 230 percent, or \$4 billion.* City pension-fund contributions in fiscal year 2008 were \$5.7 billion and will reach \$7.6 billion by fiscal year 2013.

* *Over a quarter-million people get pension checks from New York City.* In 2007, the city's five pension systems paid benefits to about 17,500 retired firefighters, 44,000 retired police officers, 68,500 retired teachers and some 142,000 retirees from other professions.

* *The benefits paid to New York City's retirees exceed \$10.2 billion annually.* The funds that pay these benefits are separate from the city budget and are composed of contributions from the city, employees and investment income. An annual payout of this size is the equivalent of one-sixth of the city budget.

* *The average pension for a new retiree in 2006 exceeded \$42,100 a year.* The average was higher still for recently retired firefighters (\$73,000) and police officers (\$56,600).

* *For all pension funds combined, the city's contribution exceeded that of employees by nine times.* Most city employees have to contribute 3 percent of their pay for the first 10 years of employment. Nationwide, the mean contribution rate for employees enrolled in defined-benefit plans is 6.3 percent for state and local government workers and 5 percent for private-sector workers.

* *About one of every five retirees is under age 60.* Many city employees are eligible for full retirement benefits before age 65. Retirement at younger ages is especially common at the NYPD and FDNY. Almost one-third of all retired firefighters are under age 60, and more than a quarter of all police retirees are under age 50.

* *Almost one in every three police and fire retirees collects an accidental disability pension under more generous terms.* Employees injured in the line of duty can collect accidental disability pensions, calculated at 75 percent of final salary. About 42 percent of retired firefighters and 25 percent of retired police officers receive such pensions. This partly reflects a state definition of "in the line of duty" that automatically assumes that many ailments, such as some heart and lung diseases, are employment-related.

* *Retired police officers and firefighters also get a \$12,000 "Christmas bonus" every year.* Police officers and firefighters who retire with 20 or more years of service (but not on any type of disability) receive a supplemental retirement benefit of \$12,000, paid yearly in December.

* *Retirees also receive their health insurance without charge, and the taxpayer cost of that coverage is expected to grow more than 10 percent a year.* The city also reimburses the full premium cost of Medicare Part B, an optional federal benefit that covers medical services. In total, the city spent \$1.1 billion on health care for retirees in fiscal year 2008 -- and the amount will grow to \$1.9 billion in fiscal year 2013.

* *Pension benefits are protected by the state Constitution.* Pension benefits enjoy constitutional protections that guarantee a public employee the benefits available at the time he/she is hired. Any changes to reduce benefits must be made by the state Legislature and can apply only to new employees. This has resulted in four "tiers" of benefits, each somewhat less generous than the original tier.

The last tier was adopted in 1983, but the Legislature has regularly enhanced the benefits applicable to employees in the third and fourth tiers, so they are now similar to the one before.

Mayor Bloomberg and Gov. Paterson have proposed legislative changes to create a new "tier" for future workers that would provide less costly benefits; these changes are essential to the city's future fiscal health.

But, with the city budget under enormous fiscal pressure, reform must go further. In talks with the municipal unions, for example, the mayor is seeking employee contributions to health premiums; this concept should also be applied to retirees.

And the city should pursue savings wherever it can -- so it should work to lower or end the police and firefighter "Christmas bonuses," which are unusually generous but not protected by the state Constitution.

Charles Brecher is research director for the Citizens Budget Commission and a professor at NYU's Wagner School. Maria Doulis is senior research associate at the commission.

