crain's new york business.com

April 11, 2010 5:59 AM

Time for prudence in city benefits

By Charles Brecher

While all eyes are on the late state budget, another important fiscal event is looming: the release of the city's Executive Budget. That should prompt discussion of how to rein in growth of the city's retirement benefits, notably pensions and health insurance. From fiscal years 2006 to 2009, city pension contributions jumped from $3.9 billion to $6.3 billion, and in fiscal year 2014, they will exceed $7.9 billion.

Such increases are unsustainable.

The city's required pension contributions are skyrocketing due to excessively generous benefits and declines in returns on pension fund investments. Returns rise and fall with the markets. The only way to avoid an unaffordable burden in coming years' budgets is to make pension benefits less lavish.

The state constitution guarantees current retirees and workers their pension benefits, but those benefits can and should be reduced for future workers. This strategy has been followed in the past: The city has four tiers in its pension system, with each of the last three established in order to lower future costs. It is now time for a Tier 5.

Last year, Mayor Michael Bloomberg endorsed the Tier 5 strategy, proposing legislation to set reasonable benefits for future workers. The changes include establishing a minimum age for retirement among uniformed workers (many of whom now retire in their 40s), limiting the amount of overtime that workers can credit toward their pensions, and increasing their contributions.

Gov. David Paterson did not include the legislation as part of his Tier 5 proposals for state nonuniformed workers enacted in December 2009. The mayor is now on his own in seeking state legislative support for Tier 5 for city workers, with unions strongly opposed. Taxpayers should join him in a campaign to enact pension reform in the current legislative session, with savings from Tier 5 beginning on July 1.

The city's commitment to pay the full premiums for health insurance for retirees and their dependents is also expensive. The city comptroller estimates that future premiums have an actuarial value of $65 billion.

The mayor and the City Council began to fund this obligation in 2006 by establishing the Retiree Health Benefits Trust; they deposited $2.5 billion from surplus revenue over two years, a substantial step. Yet as times got tougher, the mayor and the council reversed course.

As part of the June 2009 financial plan, nearly $1.2 billion from the RHBT will be used to balance the budget in fiscal years 2011 to 2013. Using the trust to pay for operating expenses is inappropriate, especially in light of improved forecasts in January 2010, which show $1.1 billion more in tax revenue in each fiscal year from 2011 to 2013.

The imprudent diversion of these funds should be eliminated from the Executive Budget, to be released later this month. The city should also require retirees to pay a substantial share of their health insurance premiums; unlike pensions, this benefit is not protected by the state constitution.

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