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Reform New York City Municipal Union Welfare Funds

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There's a win-win opportunity for taxpayers and union members in reforming New York City's taxpayer-supported municipal union welfare funds. These little-known funds -- part of the City's compensation of municipal employees -- receive $1 billion in taxpayer contributions annually. Yet these payments serve neither the City nor its workers well. Equivalent or better benefits could be provided for less money.

The City of New York, in addition to paying salaries and traditional fringe benefits for municipal employees, makes annual payments to municipal union welfare funds. These funds are created by individual unions to provide additional benefits to their members (both active and retired) -- typically prescription drugs, dental care, optical services and other care over and above what's provided by the City's health insurance coverage.

Fifty-eight municipal unions have established at least one welfare fund, for a total of 81 funds. The amount that the City pays to these funds is negotiated separately with each union, and the average increase in these payments has far exceeded inflation, with the amount generally growing an average of four to seven percent annually.

The current arrangement suffers from three long-standing problems, according to a report, Better Benefits from our Billion Bucks, issued earlier this week by the Citizens Budget Commission:

• Limited Accountability - The City Comptroller prescribes accounting, auditing and financial guidelines for these welfare funds. Unfortunately, compliance by many funds is neither timely nor complete. For fiscal year 2007, 69 funds submitted late filings, four of them over a year late; 15 funds submitted filings that included qualified or adverse auditors' statements; and, two funds submitted no financial information. Further, the Comptroller has no real authority to impose sanctions on non-compliant, underperforming or mismanaged funds.

• Weak Financial Management - The most recent report on the funds by the Comptroller cites three types of issues: excessive administrative costs, inappropriately high reserve levels5 and signs of insolvency such as low reserves and operating deficits. Forty-eight of 70 funds that were analyzed were cited for at least one of these issues. At the end of

2007, three funds were insolvent, and the Comptroller identified ten funds with relatively low reserves and at risk of insolvency.

• Inefficient Provision of Benefits - The primary reason for using multiple, independent, welfare funds is to allow for discretion and variability among unions in the specific benefits desired. While attractive in theory, this approach has serious shortcomings in practice, which more than offset its benefits: First, the use of multiple small funds increases administrative costs. Second, the potential for greater economies of scale extend beyond administrative operations; generally, better buys are available when a larger volume of business is involved. With relatively little variability in benefits offered by the different funds, maintaining these separate benefits plans makes little sense.

Three reforms could yield better benefits for union members and savings for taxpayers:

• Consolidate Supplementary Health Care Benefits Under the City's Health Insurance Plan - The varying and inefficient package of drug, dental and optical benefits provided by the multiple welfare funds should be replaced by a standard set of benefits included under the City's health insurance program. Each of the health insurance plans that competes for the business of municipal employees and retirees should be asked to alter their package to include these benefits; alternatively, multiple supplementary benefit packages might be offered separately from the medical and hospital insurance package. Either way, the municipal workers and retirees would benefit from large-scale purchasing through a citywide program and from the expertise of the staff administering the citywide program in benefit design. Total savings are estimated at about $146 million annually.

• Provide Non-Health-Related Benefits Through a Centralized Cafeteria Plan - Eight to 16 percent of the current welfare fund expenditures go toward non-health-related benefits. For these benefits, a new centralized "cafeteria" plan should be developed, enabling individuals to select specific benefits with a limit on the dollar value. The plan could be administered by the City or by a coalition of unions, with meaningful economies of scale.

• Improve Accountability for any Remaining Union Welfare Fund Expenditures - Shifting responsibility for health-related benefits to the City will remove much of the current spending from the auspices of union welfare funds. In addition, a new arrangement for other types of benefits could fully eliminate the need for the funds. However, these funds may remain with some residual responsibilities, and relying on a union coalition to manage non-health benefits would create a new entity that should be highly accountable. Setting standards for fund performance and management and expanding the Comptroller's authority to oversee and sanction funds that don't meet those standards would help to keep remaining funds accountable.

It's time to reform these funds. These are public moneys poorly managed, and taxpayers deserve better.

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