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NYC's choice

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Amid its budget crisis, the city is on track to lay off teachers, close fire companies, cut social services and impose other sacrifices. Yet such reductions could be avoided if the city reformed its unusually costly commitments for retiree health-insurance and brought them in line with those of other public-sector employers.

Retired city employees can remain on the city's health insurance without paying *any* part of the basic premium; when they enroll in Medicare, the city reimburses the cost of their Part B premiums. By contrast, health insurance for retirees is rarely offered in the private sector. And in most states, retired public employees must pay a substantial share of the premium.

Providing this benefit for New York City retirees is a big and growing burden on local taxpayers. Retiree health insurance cost $1.5 billion in the current year and is projected to be $2.2 billion by 2015 -- a growth of 50 percent in just four years.

Some City Council members have suggested tapping into the city's Retiree Health Insurance Trust fund to avert the cuts, but that's the wrong end of the right solution. Tapping into the trust would simply take away money that is already set aside to help address existing retiree health-insurance obligations. What's needed is to *change* those obligations, which have already created a $70 billion unfunded liability.

That's something that the city can do in collaboration with municipal labor unions -- because, unlike public pensions, which are protected by the state Constitution, retiree health-insurance benefits are not guaranteed.

The temptation to tap the trust has been high since the economic downturn, and elected officials have already agreed to make a total of $1.2 billion in withdrawals to help close budget deficits. This is shortsighted and imprudent; drawing even more from the trust would do nothing to address the city's cost drivers and merely delays painful decisions for another year, when a $4.7 billion budget gap lingers.

Rather than deplete these crucial resources further, city leaders should tackle the cost of retiree health insurance in three ways:

* End reimbursement for Medicare Part B premiums. Only four other states reimburse most or all of the cost of these premiums; bringing the city in line with the public-sector norm would generate savings of $250 million in fiscal year 2012.

* Increase vesting requirements (the period of service necessary to qualify for benefits). The vesting requirement for retiree health insurance was raised from 10 to 15 years for teachers in 2009; changes should be made for the rest of the city workforce.

* Require retirees to share in the cost of their premiums. New York state has required premium-sharing since the 1980s; the city should finally catch up. If retirees paid half their premiums, the city would save $700 million in 2012.

The combined value of the savings -- $950 million -- would be enough to preserve the trust and avoid Mayor Bloomberg's planned cuts, and all the personal cost to those involved.

City agencies have already been through 10 rounds of cost-cutting, eliminating more than $5.4 billion from planned spending. And the city's workforce has been reduced, mostly through attrition, by more than 10,800 employees from the peak in 2008. The low-hanging fruit has been picked.

The question is this: Is it more important to maintain retiree health benefits that are unusually expensive, even by public-sector standards, or to retain teachers and fire companies? Expensive benefits or basic services: it's a choice that we can no longer avoid.

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