

Governor Cuomo's Labor Contracts: *Only Getting Part of the Job Done*

By David Friedfel

Governor Andrew Cuomo is currently negotiating his second round of collective bargaining agreements with the 10 large unions representing state employees. The negotiations center mostly on wages and salaries, but include fringe benefits, primarily health insurance and retirement benefits. The Governor faces the challenge of balancing the need to pay workers fairly and competitively with the need to keep tax levels reasonable.

In the first round of contracts, mostly settled in 2011 and spanning until 2016, the Governor reached agreements that struck the balance well, granting modest pay raises and achieving savings in fringe benefits. In the second round, which began with a contract negotiated this past October, the balance appears to be shifting: pay raises appear reasonable, but there are no new savings in the fringe benefit package for two of the three unions that have agreed to new contracts. As further progress is made in reaching agreements with additional unions, more should be done to control fringe benefit costs.



The State Workforce and Its Costs

State government has approximately 180,000 full-time equivalent (FTE) positions.³ As shown in Figure 1, six agencies account for 7 of every 10 positions. The largest employer is the State University of New York (SUNY) with 44,000 FTEs; together with the City University of New York (CUNY), the two employ nearly one-third of the State workforce at campuses spread across the state.⁴ The second largest employer is the Department of Corrections and Community Supervision (DOCCS) with 29,089, or 16 percent of the positions, located primarily at prisons around the state. The Office for People With Developmental Disabilities (OPWDD), which operates public facilities and contracts with private facilities that serve individuals with developmental disabilities, has 18,400 positions, or 10 percent of the state's workforce; the Office of Mental Health (OMH) has an additional 8 percent of the workforce at its hospitals and other facilities. The Department of Transportation, which maintains the state's roads and bridges, is the sixth largest employer with 5 percent of the workforce. The remaining 53,200 positions are spread among 57 different agencies.⁵

In fiscal year 2017, employee compensation is estimated to be \$20.6 billion, or 21.5 percent of State Operating Funds. Of the total compensation cost, salaries and wages comprise \$12.9 billion, or 63 percent. (See Figure 2.) Fringe benefits

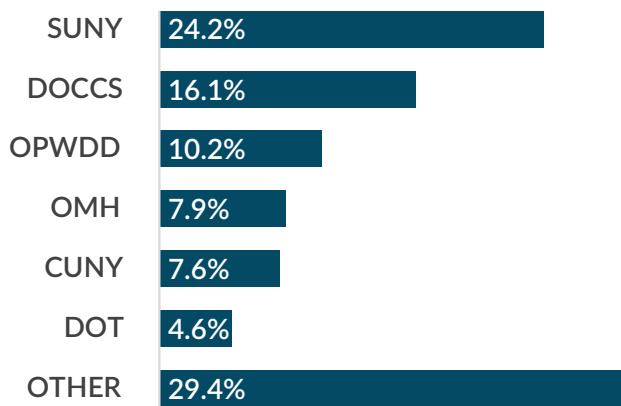
comprise the rest, with employee health insurance costing \$2.3 billion, retiree health insurance \$1.4 billion, pension fund contributions \$2.5 billion, and the rest required for items such as employer payroll taxes and unemployment insurance.

A Successful First Round

When Governor Cuomo took office at the start of 2011, the economy was still suffering the consequences of the Great Recession of 2008. Employees were reaching the end of a four-year contract that granted a 4 percent pay raise in the then-current fiscal year and 3 percent raises in each of the three preceding years; they received relatively generous fringe benefits.⁶ In order to cope with the fiscal pressures created by the recession Governor David Paterson had instituted a hiring freeze, provided monetary incentives to encourage retirements, and secured legislation to require increased contributions from new employees toward their pension benefits. These changes were possible without modification of the prevailing labor contracts.

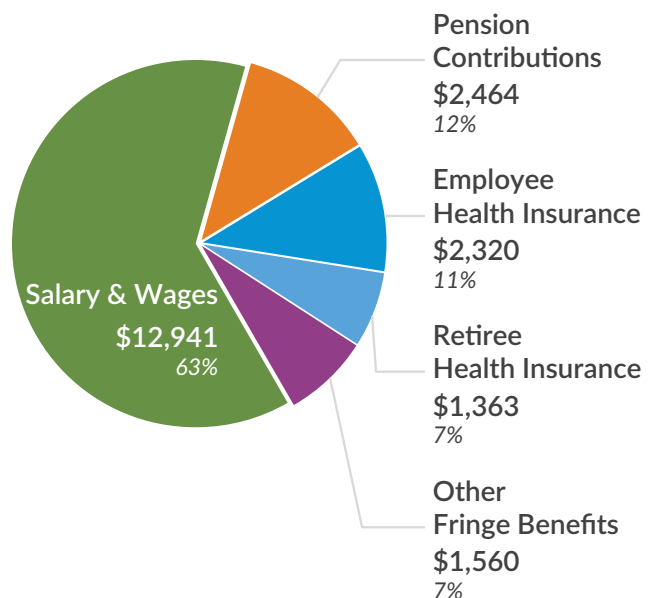
The new contracts negotiated by Governor Cuomo were successful in moderating wage growth and reducing some fringe benefit costs. The contracts generally spanned five years (2011 through 2016)

Figure 1: New York State Full-Time Equivalent Employees, Share of the Workforce, FY2017



Source: New York State Division of Budget, FY2017 Mid-Year Update to the Financial Plan.

Figure 2: Personal Service Costs, State Operating Funds, FY2017
(dollars in millions)



Source: New York State Division of Budget, FY2017 Mid-Year Update to the Financial Plan.

Table 1: Government and Private Sector Salaries in New York State, 2011-2015

	Salary Growth			Percentage Change		
	All Government	State Government	Private Sector	All Government	State Government	Private Sector
2011	\$55,252	\$65,225	\$63,057			
2012	\$56,277	\$66,242	\$64,007	1.9%	1.6%	1.5%
2013	\$57,130	\$67,695	\$64,237	1.5%	2.2%	0.4%
2014	\$58,739	\$68,739	\$67,208	2.8%	1.5%	4.6%
2015	\$60,343	\$69,971	\$68,786	2.7%	1.8%	2.3%
	Total Change			Compounded Annual Growth Rate		
	\$5,091	\$4,746	\$5,729	2.2%	1.8%	2.2%

Source: CBC staff analysis of data from New York State Department of Labor, *Quarterly Census of Employment and Wages (GCEW)*, and *OSC Quarterly Workforce Reports*.

with no raises in the first three years and raises of 2 percent in each of the last two years (plus lump sum payments for some unions in first three years). (See Appendix A for details on each collective bargaining agreement.)

The modest nature of the raises is illustrated in Table 1, which compares public and private sector wages in New York State from 2011 to 2015. State government wages grew less rapidly than private sector wages and less rapidly than all government sector wages. State government wages grew at essentially the same pace as inflation, a historically low 1.7 percent annually.⁷

With respect to fringe benefits, the first round contracts made gains in containing employee health insurance costs. Employee health insurance cost \$1.8 billion in fiscal year 2011. The State's plan offered generous benefits with no deductibles and wide acceptance by physicians and hospitals. Employees were responsible for 10 percent of premiums for individual plans and 25 percent of premiums for family plans. The new contracts provided for an increase in employee contributions toward premium costs, with the new share varying between two groups of employees based on their salaries. As outlined in Table 2, employee

premium shares for individual coverage increased from 10 percent to 12 percent for grades 9 and below (employees with salaries generally below \$45,000), and to 16 percent for grade 10 and above (employees with salaries starting at about \$45,000). The employee premium share of family coverage also increased. These changes put New York in the mid-range of states requiring premium-sharing: it ranked 20th for employee share for individual coverage.⁸

The negotiations also led to changes in employer pension fund contributions beginning in 2012, although the change took the form of state legislation rather than contract provisions.⁹

Table 2: Empire Plan Employee Share of Premium Paid

	Pre-2011	2011-Present	
	All Grades	Grades 9 & Below	Grades 10 & Above
Individual Coverage	10%	12%	16%
Family Coverage	25%	27%	31%

Source: New York State Department of Civil Service.

New York State provides its workers a defined benefit pension, meaning that the employees are guaranteed a certain pension payment based on their years of service and final average salary.

Employees' required contributions to the pension fund are set in state statute, but as a practical matter any change by the legislature requires agreement with the unions. Changes can apply only to employees hired after the legislation is passed. Employees hired before July 1976 have no required contribution, those hired between 1976 and 2010 (the bulk of current employees) contribute 3 percent of salary for the first 10 years of employment, and those hired after 2010 contribute at least 3 percent for the entire duration of employment. Governor Cuomo reached an agreement to raise the contribution for new employees hired after April 1, 2012 making more than \$45,000 annually by creating pension Tier 6. The rate increases from 3 percent to 6 percent depending on salary.¹⁰ The new arrangement was estimated to save State taxpayers \$13.2 billion over 30 years.¹¹

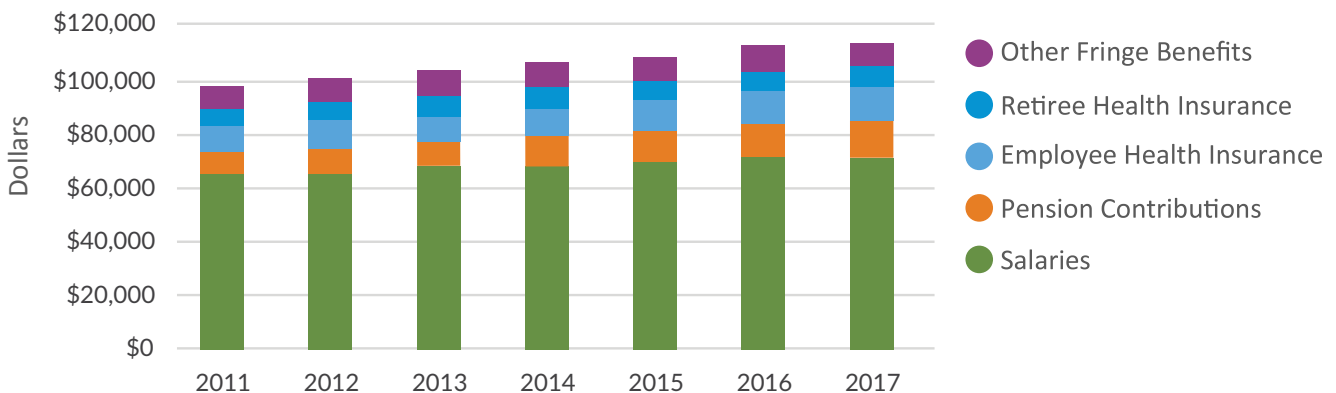
The changes to employee premium shares were applied to retirees who left state service after 1983 but the 2011 negotiations did not lead to substantial changes in retiree health insurance benefits. Therefore, most retirees pay the same health insurance shares as their counterparts that are still working for the state.¹² In order to be eligible for retiree health insurance, ten years of service is required and the employee must retire immediately after state service. Depending on when an

individual retired and the type of enrollment, the state pays between 69 percent and 100 percent of the premium. New York also reimburses retirees for their Medicare Part B premiums. These benefits are relatively generous. Fourteen states do not offer retiree health insurance or provide no premium share. Only seven states reimburse Medicare premiums.¹³ Six states require at least 20 years of service, and 10 years is the median number to qualify among all states.¹⁴

Retiree health insurance will cost the state almost \$1.4 billion in fiscal year 2017, but this figure understates the fiscal significance of these benefits. The Governmental Accounting Standards Board (GASB) requires government entities to estimate and disclose the long-term costs of providing retiree health insurance, called other postemployment benefit (OPEB) liabilities. New York's estimated outstanding OPEB liability was \$77.9 billion as of 2016.¹⁵ New York has no plan to pre-fund these long-term liabilities similar to the way it does pensions. In the fiscal year 2017 Executive Budget Governor Cuomo proposed reforms to retiree health insurance cost sharing that would have provided long-term savings to the State, but they were not approved by the legislature. (See Citizens Budget Commission analysis of those proposals [here](#).)

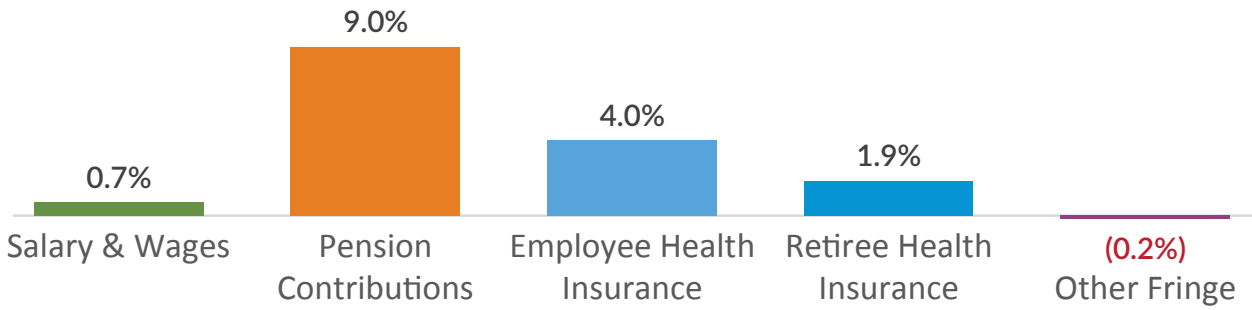
The changes in the first round of bargaining helped constrain the growth in personal service cost per employee. (See Figure 3.) Total cost including fringe benefits rose 16.3 percent from \$98,265 in

Figure 3: Personal Service Costs per FTE, State Operating Funds, FY2011-FY2017



Source: New York State Division of the Budget, *Mid-Year Update to the Financial Plan, FY2012 to FY2017*.

Figure 4: Compounded Annual Growth Rates of Personal Service Costs, FY2011-FY2017



Source: New York State Division of the Budget, *Mid-Year Update to the Financial Plan, FY2012 to FY2017*.

fiscal year 2011 to \$114,322 in fiscal year 2017. Growth in salaries (8.7 percent) was slower than growth in fringe benefits (31.8 percent) with pension contributions growing most rapidly (74.9 percent).¹⁶ Employee health insurance grew by 32.0 percent while retiree health insurance grew by 16.5 percent.

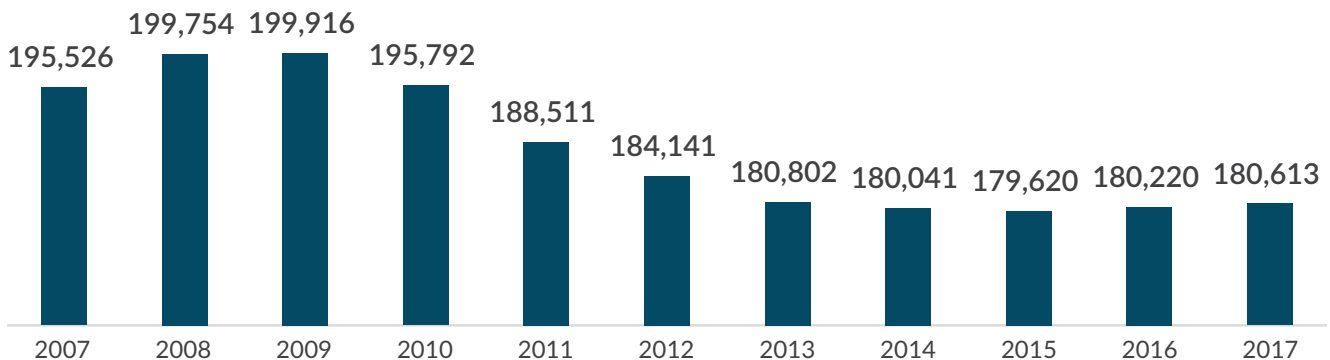
Interestingly, the compounded average annual growth in the State's total compensation costs (0.7 percent) was slower than the growth in cost per employee. (See Figure 4.) This is due to a reduction in the number of employees. As shown in Figure 5, between fiscal years 2011 and 2015, the workforce decreased nearly 5 percent from 188,511 to 179,620. The incentive to lower headcount derives from the Governor's commitment to cap total State spending growth at 2 percent annually; with other large items, notably education aid and Medicaid, growing at a faster pace, most of the savings have had to come from lowering agency payrolls.

However, 600 FTEs were added back in fiscal year 2016, and an additional 400 FTEs are expected to be added back in fiscal year 2017.

The Beginning of the Second Round

With most of the union contracts expiring in April 2016, the Governor now faces a second round of bargaining. In October he reached the first agreement, with the Public Employees Federation (PEF) representing about 54,000 workers.¹⁷ Subsequent agreements were reached in December with State University of New York Graduate Assistance Unions/CWA Local 1104, representing 5,000 workers and the New York State Correctional Officers and Police Benevolent Association (NYSCOPBA), which represents 20,000 state employees.¹⁸ The pattern set in the PEF and CWA agreements is a three-year contact with 2 percent raises in each year. The agreement with

Figure 5: New York State Full-Time Equivalent Employees, FY2007-FY2017



Source: New York State Division of the Budget, *Mid-Year Update to the Financial Plan, FY2012 to FY2017*.

NYSCOPBA is a five year agreement with 2 percent raises in each year and includes a provision for \$35 million in unspecified health insurance savings. No substantial changes were made to fringe benefits.¹⁹

The 2 percent raises are reasonable, if not generous, in the current economic climate. The 2 percent is slightly less than the expected pace of inflation; however, the economic outlook is uncertain.²⁰ Growth has continued for almost eight years since the Great Recession, and the State’s financial plan expects continued increases in employment and income through 2020. However, given the long span of growth, a recession in the period covered by the contracts is a real possibility. If the economy does go into recession, State revenues could fall by \$44 billion over a four-year period, undermining the State’s ability to pay for the raises after fiscal year 2017.²¹

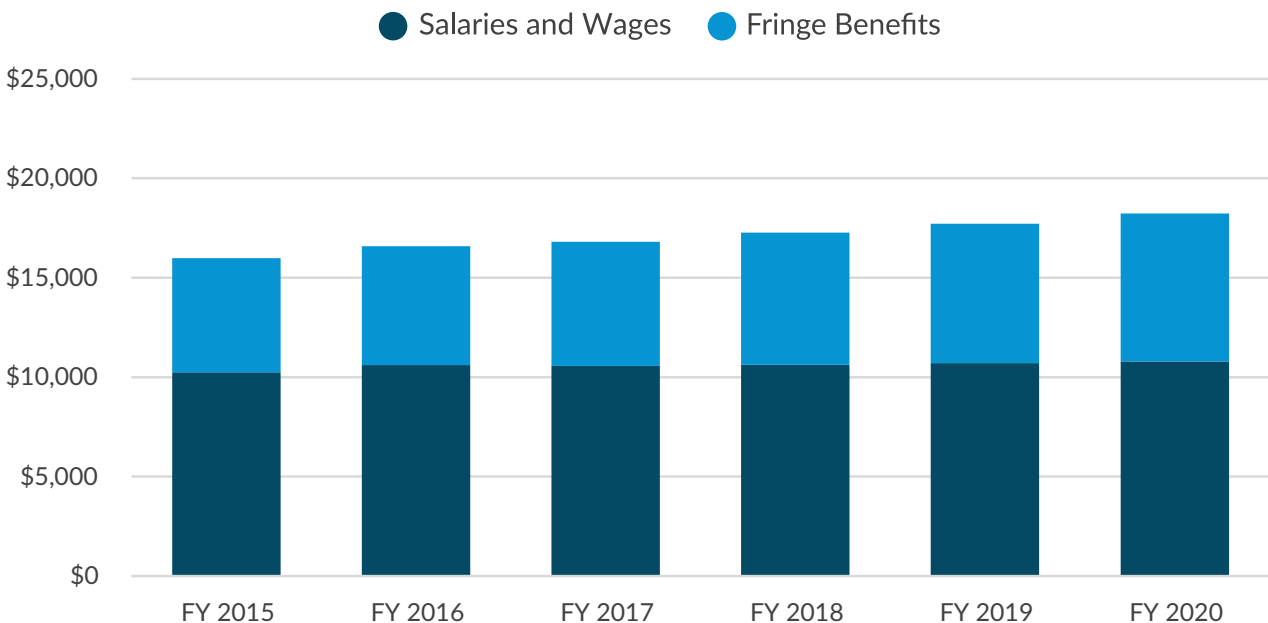
Less reasonable is the absence of any initiatives to curb the growth in fringe benefit costs. In particular, retiree health insurance benefits should be a priority for reform. The current benefits are generous relative to other states, and their cost is forecast to increase \$320 million between fiscal years 2017 and 2020.²²

Absent further modification, the current pattern of agreements could be a significant risk to the State’s financial plan. The most recent update to the plan in November contained no funding for salary increases in future years, but did support funding for increases in fringe benefit costs consistent with past trends. (See Figure 6.) The change in projected salary expenses from 2017 to 2020 in the plan is less than 1 percent per year, but fringe benefit costs are projected to increase more than 6 percent per year on average.²³

The pattern set in the two most recent agreements will alter these projections (the cost of the PEF contract was included). It would cost the state \$195 million in fiscal year 2017, \$386 million in fiscal year 2018, and \$591 million in fiscal year 2019, if the new pattern were applied to all the State’s collective bargaining units.²⁴ The State already is facing budget gaps of \$3.5 billion in fiscal year 2018 and \$7.1 billion in fiscal year 2019; the additional cost of the annual 2 percent raises will worsen an already problematic financial outlook.

If future budget priorities follow those of recent years, the budget gaps will be addressed primarily by reducing personal service costs through reductions in headcount. For coming years this

Figure 6: Personal Service Spending, State Operating Funds, FY2015-FY2020



Source: New York State Division of the Budget, *Mid-Year Update to the Financial Plan, FY2012 to FY2017*.

could mean significant reductions in the number of State employees available to provide services. Offsetting the cost of the contracts and keeping personal service spending within current budgeted amounts would require a decrease of 10,000 employees between fiscal years 2017 and 2020.²⁵

Conclusion

Governor Cuomo has a strong record of bargaining effectively and fairly with the unions representing State employees. In 2011 he reached agreements that fit the tough fiscal times, providing modest raises and achieving savings in fringe benefit costs. The initial pattern set this year in his second round of bargaining falls short of repeating the earlier accomplishments. While the annual 2 percent raises are justifiable, the failure to secure new fringe benefit savings is a missed opportunity. Absent new initiatives in ongoing negotiations and in the upcoming budget legislation, budget gaps will grow and necessitate a shrinking of the State payroll.

A preferable strategy is to seek aggressively savings in fringe benefit costs, particularly the cost of retiree health benefits. The Governor's budget proposal from last year is a good starting point. The

Executive budget proposed to stop reimbursing state retirees for the cost of the Income Related Monthly Adjustment Amount (IRMAA), which is levied by the Federal government on individual Medicare beneficiaries with incomes in excess of \$85,000. This proposal would save \$6 million annually.

The Governor also proposed capping the Medicare Part B premium reimbursement at 2015 levels. Savings would have been \$1 million in fiscal year 2017, increasing based on the growth in Medicare Part B premiums. The Governor also proposed to proportionally decrease the State share of health insurance premiums for retirees with less than 30 years of service – saving state taxpayers \$3 million in the first year and \$25 million annually by year four.²⁶ Current retiree health benefits are relatively generous and increasingly expensive. Reasonable changes similar to those previously proposed by the Governor ought to be a high priority in the coming months in order to make the future compensation of State workers fair and affordable.

APPENDIX

Wage Increases Negotiated In First Round of Bargaining Under Governor Cuomo, FY2012-FY2017

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
CSEA	0%	0%	\$775 lump sum payment	2% & \$225 lump sum payment	2%	
PEF	0%	0%	0%	2%	2%	
NYSPIA	0%	0%	0%	2%	2%	1.50%
NYSPBA	\$2,625	0%	\$775 lump sum payment	2% & \$225 lump sum payment	2%	1.50%
NYSCOPBA	\$2,075	0%	\$775 lump sum payment	2% & \$225 lump sum payment	2%	
PBANYS	\$2,625	0%	\$775 lump sum payment	2% & \$225 lump sum payment	0%	
C-82	0%	0%	\$775 lump sum payment	2% & \$225 lump sum payment	2%	
UUP	0%	0%	0%	2%	2%	
GSEU	0%	0%	0%	2%	2%	
DC-37	0%	0%	0%	2%	2%	
M/C	0%	0%	0%	2%	2%	

Source: Source: Governor's Office Of Employee Relations, December 6, 2016.

ENDNOTES

¹ New York State government's unionized workforce is represented by 14 collective bargaining units under the auspices of 10 unions. The unions representing the most State employees are the Civil Service Employee Association (CSEA) and the Public Employees Federation (PEF). The other unions are: United University Professions (UUP); Graduate Student Employees Union (GSEU); District Council 37 (DC 37); New York State Correctional Officers and Police Benevolent Association (NYSCOPBA); New York State Law Enforcement Officers' Union, Council 82 (C82); The Police Benevolent Association of New York State (PBANYS); New York State Police Investigators Association (NYSPIA); and Police Benevolent Association of the New York State Troopers (NYSPPA). See: Governor's Office of Employee Relations, "State-Union Contracts" (accessed December 6, 2016), www.goer.ny.gov/Labor_Relations/Contracts/index.cfm.

² Pensions are a "prohibited" topic of collective bargaining, but labor and management often make deals to support changes to these benefits during contract negotiations.

³ A full-time equivalent employee is an individual who works full-time, or multiple individuals who work the equivalent of a full-time position when their hours worked are combined. Seasonal, hourly, and per diem employees are not included in the definition of full-time employees. New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 97, T-81, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

⁴ An additional 13,300 FTEs are employed at CUNY, but funded primarily through an agency trust fund and are not included in this count. See: New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 97, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

⁵ There are an additional 107,500 staff at the State's public authorities; however many of these staff are part-time. See: State of New York Authorities Budget Office, *Annual Report on Public Authorities in New York State* (July 1, 2016), p. 39, www.abo.ny.gov/reports/annualreports/ABO2016AnnualReport.pdf.

⁶ See: Elizabeth Lynam, "Cuomo's Reforms Are Perfectly Fair," *New York Post*, February 23, 2012, www.cbcny.org/sites/default/files/OPED_NYP_02222012.pdf; and Maria Doulis, *8 Things New Yorkers Should Know About Public Retirement Benefits in New York State* (Citizens Budget Commission, October 2010), www.cbcny.org/sites/default/files/REPORT_PensionFacts_10202010.pdf.

⁷ United State Department of Labor, Bureau of Labor Statistics, *CPI Detailed Report* (December 2015), p. 74, www.bls.gov/cpi/cpid1512.pdf.

⁸ CBC staff analysis of data from Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, *State Employee Health Plan Spending* (August 2014), p. 37, www.pewtrusts.org/~media/assets/2014/08/stateemployeehealthcarereportseptemberupdate.pdf.

⁹ Following the Great Recession, the State's pension contribution drastically increased from \$1.1 billion in fiscal year 2009 to \$2.7 billion in fiscal year 2014, reflecting the poor performance of retirement system investments. In response, the State authorized a pension amortization program whereby the state, school districts, and local governments could defer a portion of their annual payment over 10 years, with interest. Between fiscal years 2011 and 2016, New York State amortized almost \$3.6 billion and will be required to pay \$724 million in interest payments. See: New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Up-*

date (November 2016), p. 42, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

¹⁰ Employee pension system contributions under Tier 6 are as follows: \$45,000 or less - 3 percent; \$45,000 to \$55,000 - 3.5 percent; \$55,000 to \$75,000 - 4.5 percent; \$75,000 to \$100,000 - 5.75 percent; more than \$100,000 - 6 percent. The state also offers a voluntary defined benefit contribution plan, although it is limited to non-union employees with annual salaries in excess of \$75,000. See: The State University of New York, *The Flexible Retirement Savings Plan* (accessed December 6, 2016), www.vdc.ny.gov.

¹¹ Total savings for all levels of government is \$82 billion over 30 years. See: Governor Andrew M. Cuomo, "Governor Cuomo Signs Law to Enact Major Pension Reform" (press release, March 16, 2012), www.governor.ny.gov/news/governor-cuomo-signs-law-enact-major-pension-reform.

¹² When retirees' option to apply unused sick leave towards their share of the premium is taken into account, retirees actually pay less than those who are still working.

¹³ Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, *State Retiree Health Plan Spending* (May 2016), p. 21, www.pewtrusts.org/en/research-and-analysis/reports/2016/05/state-retiree-health-plan-spending.

¹⁴ Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, *State Retiree Health Plan Spending* (May 2016), p. 17, www.pewtrusts.org/en/research-and-analysis/reports/2016/05/state-retiree-health-plan-spending.

¹⁵ New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 43, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

¹⁶ While the State's amortization program helped contain pension costs between FY 2011 and FY 2015, the net impact in FY 2016 was an additional \$36 million in costs, and \$432 million in FY 2017 as repayments exceeded amortized amounts.

¹⁷ Rick Karlin, "PEF, Cuomo Reach Tentative Labor Contract; Two Percent Annual Raises and No Health Care Cost Hikes for Three Years," Albany Times Union, October 19, 2016, www.timesunion.com/local/article/PEF-Cuomo-reach-tentative-labor-contract-9985010.php.

¹⁸ Office of The Governor of New York State, "Statement from Governor Andrew M. Cuomo; Governor Andrew M. Cuomo and the nearly 5,000 State University of New York Graduate Assistants Union/CWA Local 1104 today reached an agreement on a three-year contract. The agreement includes a 2 percent increase in 2016-17, a 2 percent increase in 2017-18 and a 2 percent increase in 2018-19" (press release, December 19, 2016), www.governor.ny.gov/news/statement-governor-andrew-m-cuomo-120.

¹⁹ PEF's summary of the contract includes a "trade-off" column that is completely blank, except for a provision regarding who is responsible for printing copies of the new agreement. See: Public Employees Federation, *The Communicator; Special Edition 2016-2019 PS&T Contract* (accessed December 6, 2016), www.pef.org/wp-content/uploads/2016/05/2015-2016-TentativeAgreement.pdf. The NYSCOPBA agreement provides for \$35 million in savings over five years related to health insurance, although details are not available. See: Matthew Hamilton, "State, Correction Officers Union Agree to Contract," Albany Times Union, Capitol Confidential Blog, December 22, 2016, <http://blog.timesunion.com/capitol/archives/270465/state-correction-officers-union-agree-to-contract>.

20 For inflation forecasts see: New York State Division of the Budget, *Economic, Revenue, and Spending Methodologies*, (November 2016), p.126, www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf.

21 David Friedfel, Predicting the Peak, *Preparing for the Trough: An Examination of the Impact of a Possible Recession on New York State* (Citizens Budget Commission, June 20, 2016), www.cbcny.org/content/predicting-peak-preparing-trough-examination-impact-possible-recession-new-york-state.

22 New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 98, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

23 New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 98, T-161, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

24 New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), p. 9, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

25 Calculated using the current financial plan's average wage growth by 2 percent per year to determine the requisite decreases in number of full-time equivalent employees to keep spending within the confines outlined in the current financial plan. Assumes that other factors impacting wages and salary remain stable. CBC staff analysis of data from New York State Division of the Budget, *FY 2017 Financial Plan Mid-Year Update* (November 2016), T-161, <http://publications.budget.ny.gov/budgetFP/FY2017MidYearUpdate.pdf>.

26 David Friedfel, "Pass Governor's Proposal to Reform State Retiree Health Insurance Benefits," Citizens Budget Commission Blog (March 14, 2016), www.cbcny.org/cbc-blogs/blogs/pass-governor-s-proposal-reform-state-retiree-health-insurance-benefits.

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540 Broadway
Fifth Floor
Albany, NY 12207
518-429-2959

Two Penn Plaza
Fifth Floor
New York, NY 10121
212-279-2605