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NYC'S OUT-OF-CONTROL LABOR COSTS

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NEW York City needs and deserves an efficient, effective, fairly compensated workforce - but that compensation must take into account the ability of struggling taxpayers to pay the costs.

Across the nation and around the world, employers are adapting to the global meltdown by trimming costs to reflect economic realities. This same imperative applies to city workers. Total compensation costs for municipal employees (pay plus fringe benefits) have reached a point where something has to change.

A report released by the Citizens Budget Commission shows that the average compensation cost of full-time city employees reached $106,743 in the last fiscal year.

Average pay per employee topped $69,100 (including salary, overtime and other pay differentials), while average fringe-benefit costs were about $37,600. More than half the cost of fringe benefits, about $20,000, was for pension contributions, and more than $8,000 was for health insurance.

And in the last eight years, the city's average employee compensation cost grew by nearly two-thirds. Since fiscal year 2000, salaries have grown at an average rate of 3.6 percent a year, compared to an inflation rate in the metro region of 3.2 percent.

But the real problem is the fringe benefits - whose growth is astonishing. In eight years, the city's average contribution for pension benefits grew *704 percent* - from $2,530 per full-time employee to $20,333. Health-insurance costs doubled while other nonpension fringe-benefit costs rose almost 50 percent.

Some of that growth, especially the rising cost of health care, reflects a national problem. But that doesn't explain the fact that total compensation costs for city employees rapidly outpaced those in private industry and in state and local governments nationally.

Total US compensation costs over the last eight years rose 31 percent for private employers and 34 percent for state and local governments - compared to 63 percent for New York City.

Three factors drive this growth:

* Pay increases are directly attributable to contract settlements with unions. The Bloomberg administration's contracts have been generous both historically and comparatively. The mayor's early stance that hikes should be funded by productivity gains or other concessions produced some givebacks in negotiations. But the latest settlements awarded civilian and uniformed unions 4 percent annual wage increases, well above projected inflation, with *no* concessions.

* City health-insurance benefits are more generous than those of the private sector and other state and local governments. The city pays the full premium cost of insurance for employees and their families and for retirees and their spouses. Most other employers require their workers to pay *some* share of the premium.

* The city's defined-benefit retirement plans lock in future payouts to retirees based on the employee's pay, years of employment, age at retirement, etc. These generally cost more than other pension plans - such as defined-contribution plans, in which the employer is responsible for a yearly contribution that can be negotiated. On top of that, the Legislature has enriched pension benefits for local-government employees greatly over the last few years.

And these pension benefits are protected by the state Constitution and can't be reduced for current workers.

While the city must meet the commitments for current workers' pension benefits, it can limit the growth of its future liability while continuing to provide fair and adequate compensation to its employees.

Three steps should be taken immediately:

* Mayor Bloomberg and the city's unions must partner to identify concessions and workplace reforms that would provide immediate and recurring savings. And the city should return to productivity-based negotiations in future contract talks.

* The mayor should aggressively pursue health-insurance reforms. He included $200 million in savings from health-insurance restructuring in his plan for the next fiscal year. These savings and more should be identified and implemented.

* Both the mayor and Gov. Paterson have recognized the need for pension reform and proposed a new pension tier for new employees. The Legislature should approve these changes.

These three steps are essential. Failing to act on them will jeopardize the city's economy and its services.

Carol Kellermann is president of the Citizens Budget Commission (cbcny.org).

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