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State can't afford overly generous pensions

By KENNETH ADAMS AND CAROL KELLERMAN

The good news in Gov. David Paterson's proposed new state budget is the recognition that something must be done to control employee compensation in the state and local government budgets. The less encouraging news is the more than $5 billion in new tax proposals.

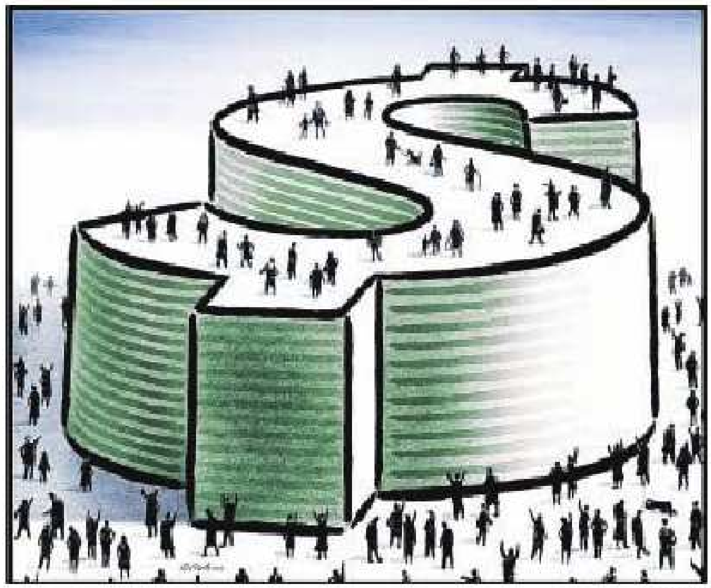
Salaries and fringe benefits comprise nearly one-fifth of the state budget, more than half of the New York City budget and a large portion of every local government budget. Something must be done to slow the growth in these costs.

Union contracts call for significant new raises. The fall in the stock market will oblige taxpayers to put more money into pension funds. The cost of health insurance is rising relentlessly driving up taxpayer costs to pay for these benefits.

This is a huge problem for all New Yorkers. Our organizations, the Business Council of New York State and the Citizens Budget Commission, along with the Association for a Better New York and the Real Estate Board of New York believe the time is now to address these issues.

Governor Paterson has taken the lead in addressing this challenge by proposing these dramatic measures:

- Eliminating one annual pay increase, typically averaging 3 percent, for state employees that was planned as part of recent collective bargaining agreements.
- Requiring retired state employees to pay a larger share of their health insurance costs. The state now pays the full Medicare part B premium for retired workers and pays 90 percent of retirees' individual insurance or 75 percent of family insurance premiums. The governor's proposal would reduce those shares for workers retiring with less than 30 years of service and apply this cost-sharing to Medicare Part B premiums. The new plan is still far more generous than the retiree health benefits typically provided in the private sector.
- Establishing a new pension program for newly hired state employees. The current programs are more costly than many other public-sector plans and virtually all private-sector plans. Among the exceptionally generous provisions that would be changed are eliminating the inclusion of overtime pay in calculating the worker's salary base for pension benefits, increasing the minimum age requirement for most workers from 55 to 62, and extending the employees' mandatory contribution beyond the first 10 years of service. These changes would apply only to newly hired workers; the pension benefits of current employees cannot be altered because of protections in the state constitution.



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The short-term savings from these measures is relatively modest, about $250 million in fiscal year 2010-11. But the long-term savings are far more significant, because the pension savings grow as more workers enter the new system and the health insurance savings rise with health care cost inflation. The state Legislature should embrace the governor's proposals, and consider enhancing them by upping the health insurance cost-sharing for current workers as well as retirees.

New York City Mayor Michael Bloomberg has joined the governor in seeking changes to public workers' pension benefits. The governor's pension plan changes would apply to most civilian workers in local governments. But separate state legislation is needed to

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PENSIONS: Control labor costs

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change the pension plans for New York City firefighters and police officers. Bloomberg has requested such changes, and the governor includes them as part of his budget legislation.

The new plans would apply only to newly hired workers. It would make these plans more comparable to those of other public workers. As new officers and firefighters join the city payroll, the annual savings would grow from about $25 million to $500 million annually.

Mayors, county executives, school boards and other municipal managers across the state need the state to give them tools to control labor costs. The private economy cannot support continued growth in these costs.

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With respect to health insurance, New York City is even more generous than the state. Taxpayers bear the full cost of standard health insurance premiums for current city workers and their families as well as for retirees and their spouses. This is true in other municipalities as well. Local government workers and retirees should pay at least as much as is currently required of state employees.

The governor is moving in the right direction with respect to compensation for state and local government workers. Mayors, county executives and other municipal managers should join him in calling for more than just future pension reforms, and all taxpayers should support these important reforms as part of a balanced response to the hard economic times.