

Cuomo Targets Future State and City Workers In Tier 6 Proposal

■ 'Days of Life-Long Legacy' Are Over, He Says And Offers 401(k) Option



GOVERNOR CUOMO: 'Can't sustain current system.'

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Governor Cuomo proposed a new pension tier for incoming state and city employees in his budget message Jan. 17, setting up a major confrontation with public-employee unions that are still reeling from last year's arm-twisting state contract negotiations.

"We can no longer sustain the current pension system," he said.

Retire Older, With Less

His proposed Tier 6 would increase employee contributions—then require workers to absorb some of the pain in a market decline by paying more into the pension fund—raise the retirement age to 65, reduce the multiplier used to calculate pensions by 17 percent and exclude overtime and other payments from the final average salary on which the pension is figured. And where Tier 5 when adopted in 2009 did not cover city employees, Tier 6 would, including uniformed workers.

Workers could choose between Tier 6 and a 401(k) plan, which would allow employers to contribute up to 7 percent of an employee's salary. A worker leaving state service could still keep the 401(k), unlike those in the defined-benefit plan who, if they leave before they are vested at 10 years' service, get nothing.

"We never said pensions are a life-long legacy for workers who are not hired yet," Mr. Cuomo said. "...We can't afford it." He said the cost of public-worker pensions to state and municipal governments was projected to rise 185 percent between 2009 and 2015. His program would save \$113 billion over the next 30 years, he said, although most of the savings would not be realized until the final 10 years of that period.

No Impact on Current Workers

The changes would apply only to workers hired in the future. The state Constitution provides that retirement benefits "not be diminished or impaired" for current or past employees.

While business groups and Mayor Bloomberg praised the plan, state-employee unions excoriated it. They called it an attack on middle-class public workers that will charge



DANNY DONOHUE: 'An assault on the middle class.'



HARRY NESPOLI: 'Guarantees decline in services.'



MARIO CIENTO: Plan would take workers backward.



MAYOR BLOOMBERG: Governor made his day.

them more money for a smaller and less-certain pension benefit. They said it would discourage the best and the brightest from entering the civil service. And, they pointed out, it would take many years to produce significant savings for the state and local governments.

“This legislation, if enacted, will throw the widows and children of future firefighters killed in the line of duty under the bus,” said Uniformed Firefighters Association President Steve Cassidy.

‘Cheap Shot at Public Employees’

Danny Donohue, president of the Civil Service Employees Association, said his organization “has no hesitation in saying that the proposal for a new public-employee pension tier is an assault on the middle class and a cheap shot at public employees. It will provide no short-term savings and will mean people will have to work longer, pay more and gain less benefit.”

“The Tier 6 proposal is nothing more than a false choice of accepting severely reduced pension benefits or joining an inefficient 401(k)-style pension system,” said Ken Brynien, president of the Public Employees Federation. “It would force public employees into a pension gamble that virtually guarantees a lower level of benefits.”

Harry Nespoli, chairman of the Municipal Labor Committee and president of the Uniformed Sanitationmen’s Association, said the proposal would undo benefits that have existed for more than 50 years, and would “ensure that the quality of personnel who decide to become public-sector employees will decrease... It guarantees a decline in service delivery.”

“We disagree with the contention that the current defined-benefit pension is unsustainable,” said Mario Cilento, president of the State AFL-CIO. “What is unsustainable is a society where each generation of middle-class worker retires with less financial security than the one before.”

A Drain on State, City Budgets

The \$133.8-billion state pension fund, the third-largest in the U.S., was 101.5-percent funded in 2010, better than any other state, according to Bloomberg News. However, State Comptroller Thomas P. DiNapoli, citing losses after the 2008 crash and a holiday for government contributions during the boom years, has been raising the amount the state and its municipalities are required to pay into the system. Chief City Actuary Robert C. North has recommended an unprecedented 1-point reduction in assumed earnings for the five city funds, requiring an additional \$1 billion in annual city contributions.

“This pension benefit has existed for a hundred years,” said Patrick J. Lynch, president of the Patrolmen’s Benevolent Association. “It recognizes the difficult and dangerous job New York City police officers perform each day. To alter that benefit would jeopardize the effective delivery of these critical services.”

“The Governor’s proposed budget ignores the fact that state workers have done their share to address the state’s fiscal problems,” Mr. Brynien said. He was referring to the loss of 16,000 state jobs since 2008 and the more-restrictive Tier 5 pension plan passed in 2009. He was also speaking about a new contract for his members, approved last fall after two votes amid repeated threats of thousands of layoffs, that contains a three-year pay freeze, increases in health-care premiums and nine unpaid furlough days. The CSEA approved a similar contract under similar threats.

Responding to the reality that Tier 6 won’t save significant money in the short term, Mr. Cuomo said that changes in the pension system have to start somewhere. “It’s irrelevant,” he said of the delay in savings. “It’s an incremental process.”

Unions: Must Educate Public

The unions say that they will fight Mr. Cuomo’s proposal with a public-education campaign. Stephen Madarasz, a CSEA spokesman, said the public is stuck on images of retirees gaming the system to get six-figure pensions. The average pension for a retired CSEA worker is less than \$15,000, he said.

Darcy Wells, a spokeswoman for PEF, said the union will be “aggressively fighting the pension proposals” by “educating legislators” and the public and by working with other unions.

The Democrat-controlled State Assembly has been a strong backer of public-employee unions. But a spokesman for Assembly Speaker Sheldon Silver said his boss was not dismissing the proposal. “He believes the Governor put out a menu of options...that could serve as a basis for discussions with unions,” the spokesman said. “But there’s still a long way to go.”

Peter J. Abbate Jr., chair of the Assembly Committee on Government Employees, said it was too early to predict how the Tier 6 proposal would do in the Legislature. He said he told Mr. Cuomo that he would sit down with the unions to examine the measure, but noted that state workers just got a contract with a three-year pay freeze.

The 401(k) plan, he said, “scares me,” noting that 401(k)s were initially supposed to augment pensions, not substitute for them. Much of the savings from a new pension tier, he said, might have to go to food stamps “to help these people survive...People will not be able to survive on their pensions.”

401(k)s: Watch Out!

Union leaders also had some words of caution about the 401(k) option, mindful that unlike a defined-benefit pension plan, 401(k) balances can rise or fall with the stock market or other investment vehicles.

“The Governor’s proposal of a 401(k)-style option as part of Tier 6 would certainly be attractive to highly-paid political appointees who could max out their contribution, have it matched by the public employer and take it with them as they come and go,” Mr. Donohue said. “It’s a lot different for front-line career employees who have to worry about whether being at the mercy of Wall Street ups and downs will provide them with

adequate retirement security 30 years from now.”

“Far too many workers have learned the hard way that a 401(k) is not the answer to long-term economic security,” said Mr. Cilento. “After 20 or 30 years of work, the retirement security of nurses, teachers, firefighters and others should not be imperiled by the fluctuations of Wall Street.

“This is not about whether or not working men and women have the ability to decide how to successfully invest their retirement savings,” he continued. “As we know, even the wealthiest employ a stable of bankers, accountants, and consultants to manage their retirement accounts. Now, with a 401(k), people of limited means will be forced to pay for financial advisers to hopefully sustain their income through retirement.”

Warning From the Comptroller

Mr. DiNapoli also warned in an interview with Bloomberg News that a 401(k) is “less secure” than a defined-benefit pension. “We’ve been pretty clear that if you want to provide retirement security for older New Yorkers or older Americans, defined-benefit plans are a smarter way to go,” he said.

The typical American worker lost 24 percent of his or her 401(k) after the economic crisis began in 2008, according to the Employee Benefits Research Institute. Grim jokes circulated about 401(k)s turning into 201(k)s. Four years later, most but not all accounts have recouped their losses, the Associated Press reported.

Mayor Bloomberg, who spent most of last year at war with municipal unions on the issue, said the pension revisions would be good for the city. “The Governor’s push for mandate relief and pension reform could save the city billions in the long term,” he said. “New York City spends more than \$8 billion annually—more than 12 percent of our budget—on pension costs, more than we spend on the operating budgets for the Police, Fire and Sanitation Departments combined.

“Without a new pension tier,” he continued, “...taxpayers will continue to spend more and more on pension costs, leaving less and less for public education, public safety, job creation, affordable housing and other critical services.”