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Opinion Editorial on Pensions

Andrew Cuomo's Bad Plan on Pensions

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As part of his proposed budget, New York Governor Andrew Cuomo has advanced a proposal called the "Stable Rate Pension Contribution Option." This would allow municipal governments, currently facing sky-high pension contribution rates due to declines in investment values during 2008 and 2009, to limit their annual payments toward employee pensions.

This sounds appealing at first. But really, it's a trap. It's just a way for municipal governments to close their budget gaps by borrowing money from the state's two main pension funds, the New York State and Local Retirement System and the New York State Teachers' Retirement System. It's a poor substitute for alternative reforms that could actually reduce the cost of municipal government.

Allowing municipalities to underfund the state's pension systems would worsen New York's pension funding ratios. That means the funds would have to be shored up later, at the expense of the same municipal governments. So whatever cities "save" now will just be paid back, with interest, by future taxpayers.

That repayment period is scheduled to stretch over the next 25 years, assuming the plans hit their investment return targets. But as E.J. McMahon of the Empire Center for New York State Policy notes, the funds are likely to miss their return targets, which means municipal taxpayers would be stuck paying a larger bill than they expect, for more years than they signed up for:

"Simulations conducted as part of NYSLRS' last actuarial update suggest there is only a 35 percent likelihood the fund will earn as much as 7.5 percent a year in the long term. A median, 50-50 bet would be just under 7 percent -- the discount rate just adopted by New York City?s pension funds, which are not part of the governor?s proposal.

"So what if asset returns continue to come in below targets? Cuomo?s proposal allows for two initial 'evaluation periods,' starting at five and ten years after the law takes effect. At each of those points, the comptroller and the NYSTRS trustees could nudge their rates upward by no more than two percentage points.... And if that?s still not enough, they would have `discretionary authority to increase or decrease the length of the baseline stable pension contribution term to ensure adequate system funding,' the governor?s bill memo explains. In other words, that 25-year period could be stretched out to 35 or 40 years."

It's no surprise that the "stable rate option" provides no long-term savings to municipalities, because it doesn't actually reduce the cost of anything: Retirees will be promised the same benefits on the same schedule as before, and sooner or later, somebody will have to pay that bill. If you want to take pressure off municipal budgets for the long term, you need to reduce the cost of providing municipal services.

That's why Syracuse Mayor Stephanie Miner, a key Cuomo ally, told the Syracuse Post-Standard that the proposal was "puzzling" -- even though it would allow Syracuse to cut $12 million from its required pension payment next year. She supports another, much better Cuomo proposal, which would limit the size of raises that arbitrators could award to employees of governments in financial distress.

That's a good idea that actually controls costs, but it doesn't go far enough. (It also likely wouldn't apply to New York City.) Cuomo's budget should have also sought repeal of the so-called "Triborough Amendment" to New York's law governing public sector collective bargaining. This amendment allows public employees to continue receiving raises linked to seniority even while their contracts are expired.

This provision is the reason every union representing New York City municipal workers is currently out of contract: They are content to sit tight, collect their seniority raises and hope that the next mayor will sign more generous contracts than Mayor Michael Bloomberg would. Some of the unions have been waiting Bloomberg out since 2007. (The mayor is founder and majority owner of Bloomberg News parent Bloomberg LP.)

Without Triborough, unions would have been more willing to come to the table and make concessions, helping New York City cope with its budget crisis. That would have been even more useful to cities upstate, which didn't have New York City's large rainy day fund and large Wall Street tax base to fall back on. It's entirely likely that high fixed costs will push Syracuse into the arms of a state financial control board in the next few years.

Ideally, New York would also reduce the actual cost of municipal workers' pensions, but on that issue Cuomo's hands are tied by the state constitution, which prevents any changes to benefits for current employees, even benefits they will earn for future years of work. Cuomo achieved much of the future savings on pensions that he could through last year's "Tier VI" reform, but costs remain high. Ending Triborough would give municipalities more breathing room to cope with those high costs and is a better solution than letting cities go into a thinly-disguised form of debt.

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