Editorial: Pension 'Crisis' Hyperbole

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A report issued last week by City Comptroller John Liu offers official confirmation of what was already apparent from other sources: that the city's rising pension costs in recent years were an extended blip on the radar screen rather than an unstoppable trend, and the Wall Street meltdown was actually more to blame than retirees' growing allowances.

Mr. Liu found that subpar returns on stock-market investments over the past decade accounted for 48 percent of the city's increased pension payments over that time, while increases in employee benefits drove up the costs by 44 percent.

This further undercuts the claim of Mayor Bloomberg and those on the political right that worker pensions are an unsustainable drain on the city's treasury and that future employees should have their benefits significantly scaled back, with a corresponding increase in how long they must work to collect them.

It is inescapable that some tweaking will have to be done to the five city pension systems in recognition of the fact that municipal workers, like the rest of the population, are living longer than their counterparts of 20 or more years ago. But Mr. Liu's report debunks the claim that a radical restructuring is needed.

Top city and state officials in 1999 and 2000 pushed for and enacted several key improvements in pension benefits and rights in return for union consent for them to pull more money out of their respective pension systems to be used in operational spending. That drive was the result of the Wall Street boom of the latter half of the 1990s combined with the short-term political interests of those officials. It created what might be called an irrational exuberance that the good times would never stop rolling.

They did, however, the product of a national recession and the financial fallout from 9/11. As a result, during Mr. Bloomberg's time in office, the city's pension contributions have grown from $1.5 billion a year to $8.4 billion. The improved benefits were part of the reason, but a bigger part was the extended Wall Street slump. Contrary to the Mayor's claim that the systems were caught short because they were expecting the kind of profits Bernie Madoff guaranteed his investors, those projections were reasonable based on long-run performance of the funds' investment portfolios. A report issued more than two months ago by a coalition whose members included the National League of Cities and the National Conference of State Legislatures showed that even with the extended Wall Street slump of the past decade, over a 25-year period public pension funds nationally had produced an average return of 9.25 percent on their investments. That is a full point above what the city funds project.

As the stock market has rebounded, investment returns by those funds have taken off again, exceeding double digits for a period of more than a year. A continuation of that trend would soon allow a reduction in city pension contributions.

Mr. Liu's report is further evidence that the city's pension problem will be better-addressed by careful monitoring of Wall Street practices than by a major overhaul of employee benefits.

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