

Less-Generous Pension Plan Being Readied for Future Workers

By MARK TOOR | Posted: Monday, May 23, 2011 5:00 pm

Governor Cuomo said last week that he was close to submitting a new Tier 6 pension plan to limit retirement benefits for state employees and save money for the financially-strapped state.

”We can’t afford the public-pension system that we have in this state—period,” he said at an appearance on Long Island.

Higher Retirement Age

The Associated Press quoted two unnamed officials as saying the plan would include:

- Raising the minimum retirement age, now 62 for most employees and 57 for teachers, to 65.
- Increasing the number of years of service required before a pension is guaranteed from 10 years to 12.
- Doubling the pension-plan contributions required of new employees, now 3 percent.
- Limiting pensions for the highest-paid workers, such as physicians, to \$179,000, the Governor’s \$179,000 salary.
- Prohibiting workers from increasing their pensions by working overtime in the years before retirement or folding in unused vacation and sick leave.
- Eliminating a “multiplier” that boosts a pension after 20 years and 25 years of service.

Saves \$93B Over 30 Years

The pair said the changes would save taxpayers \$93 billion over 30 years. The changes would apply only to newly-hired workers. The State Constitution guarantees incumbent workers that their pensions will not be diminished.

Both the unions and the fiscal conservatives were not happy with the proposal. The unions complained that their members are asked to make more sacrifices than other citizens, the conservatives that the plan doesn’t require 401(k)s, private savings vehicles in which retirees are not guaranteed a specific benefit.

E.J. McMahon of the business-funded Manhattan Institute told the Associated Press that increasing employee contributions was not enough and that Mr. Cuomo should offer new employees 401(k)s, defined-contribution plans in which employee contributions and investment

markets, rather than salary, service time and employer funding, are primarily responsible for the size of the pension.

“The problem is that as long as New York sticks with the traditional defined-benefit pension model, it needlessly exposes taxpayers to open-ended financial risk and volatility, with costly consequences,” he said.

Bloomberg News reported that a state official had said a 401(k) plan would save \$30 billion less than the one Mr. Cuomo is preparing.

Civil Service Employees Association President Danny Donohue took a different tack. “It is very clear from the Cuomo administration’s leaks about plans to seek Tier 6 pension changes for public employees that the Governor does not care about the impact of his policies on working people,” he said in a statement May 16. “The Governor is engaging in political grandstanding to impress his millionaire friends at the expense of working people and the services they provide to the people of New York.’

Won’t Help Recruiting

Stephen Madarasz, a CSEA spokesman, and Sherry Halbrook, a spokeswoman for the Public Employees Federation, both agreed that it was premature to comment specifically before Mr. Cuomo released his proposal.

But in general, Ms. Halbrook said, “our fundamental feeling is it’s unnecessary to go to Tier 6 because Tier 5 has only been in place for a year. People won’t be retiring under Tier 5 for a long time and under Tier 6 for a long, long time. The retirement system is fully funded, so the pressing need for this escapes us.”

She also harkened back to Mr. Cuomo’s campaign promise to restore the prestige of public service and bring in a new generation of workers. “If you want to attract or even retain the best people,” she said, “you don’t want to remove the incentives for them to serve.”