Public Pension Costs ‘Just Not Sustainable,’ Think Tank Concludes

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By MARK TOOR |

Because of investment losses stemming from the financial crisis, the three pension funds covering city and state workers didn’t grow at all in the past 10 years. But the total amount of benefits they’re paying out has doubled, according to the latest in a drumbeat of reports about problems with the public pension system issued by the Empire Center for New York State Policy.

The center says taxpayers will have to make up for that imbalance. Their contributions could more than quadruple for the State Teachers Retirement System in the next five years and more than double for the State and Local Retirement Systems over the same period, says the center, a right-leaning think tank. Taxpayer costs for the New York City Retirement Systems are expected to rise at least 20 percent in the next three years.

‘It’s Not Sustainable’

E.J. McMahon, director of the center, said the cost of pensions for Teachers outside New York City will rise from 6 percent of payroll to 25 percent of payroll by 2015-16. In the city, he said, government is already contributing the equivalent of 30 percent of Teacher salaries to the pension fund—and that’s going up.

“It’s just not sustainable,” he said in an interview. Taxpayers won’t go along with these increases, he said, which will force governments to cut expenses in other ways. “Tens of thousands of workers will be laid off to make pension contributions to more senior employees,” he said.

The report makes two recommendations for dealing with the problem. First, it says, officials “can seek to contain the damage by reducing headcount where appropriate, and by exploring ways of saving money on employee compensation, including wage increases and health-insurance benefits.”

Governor-elect Andrew Cuomo has proposed a one-year freeze on salaries for public employees. Mr. McMahon said three years might be more realistic. “Government needs some breathing room to reorder priorities,” he said, noting that an increase in payments to an employee’s pension plan is an increase in compensation.

Mr. Cuomo has also promised to streamline government, which is expected to mean fewer government workers.

New Pension Tactic

The second recommendation calls for placing new employees either in defined-contribution plans modeled on the 401(k) accounts relied upon by many private-sector workers, or in hybrid plans that combine elements of defined-contribution and defined-benefit plans, the center says. Under these plans, Mr. McMahon said, governments can budget for contributions they need to make and will not be at the mercy of the stock market.

The report specifically warns against creating a Tier 6 pension plan—as Mr. Cuomo has proposed—“that incrementally adjusts some existing pension parameters while preserving a fatally flawed system that exposes taxpayers to potentially open-ended liabilities.”

Mr. McMahon urged that the State Legislature give local governments the right to impose a wage freeze “as a negotiating tactic” to encourage union concessions. “If you freeze wages, you can minimize the layoffs,” he said.

New or additional contributions by public employees to their pension plans will help ease the burden on taxpayers, he said. Further, he said, workers who do not currently contribute to their pensions need to think about doing so.

Concerns ‘Overblown’

Steven Madarasz, a spokesman for the Civil Service Employees Association, said the Empire Center is “overblowing the concerns about the systems." He said that each of the state's eight separate pension systems has its own set of problems and that lumping them together makes things look worse.

"We went for a dozen years with the state and localities not paying into the funds," he said, referring to years when the funds relied only on investment income for growth. Now, the rule is that governments need to pay in good times and bad to ensure that the funds will remain solvent, he said.

"There's a public perception they help to fuel that everyone getting a public pension is getting a gold-plated pension," Mr. Madarasz continued. In fact, he said, the average CSEA retiree gets $14,000 a year. "I'm not going to apologize over $14,000 a year," he said.

Darcy Wells, a spokeswoman for the Public Employees Federation, said the report was "unnecessarily alarmist," and she questioned some of the figures it contains. "Pension costs are not increasing because of enhanced benefits but because of the stock-market crash," she said. She noted that the average pension for a state employee is $18,300 a year.

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