Razzle Dazzle

Reversal of Fortunes: Mayor and Pensions

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By RICHARD STEIER |

Last Wednesday was a good day for municipal unions on two seemingly unrelated fronts: the Federal charges that within the fiasco that is the CityTime project, the Bloomberg administration let itself be ripped off for $80 million by consultants, and a far-less-publicized report that the city pension systems produced robust returns over the past fiscal year.

The CityTime chicanery aids the union cause by blowing a giant hole in the Mayor's reputation for competence in two areas that are supposed to be his strengths: technology and fiscal management. It is such a major embarrassment that even his usual editorial boosters suggested he give up his White House aspirations and turn full attention to managing his own house. It also should mean that the renewed calls by District Council 37 Executive Director Lillian Roberts to scrutinize and slash the city's $9-billion budget for outside contractors get more-serious attention, maybe even at City Hall.

The fact that the alleged scamming began in 2005 raises questions about why the administration didn't smell a rat long ago, particularly since the CityTime contract had ballooned beyond any justifiable proportion over the past decade, soaring past $700 million after an original estimated cost of $63 million. Yet Mr. Bloomberg, while nine months ago terming the project "a disaster," has been far less alarmed by its growth than he has by the comparable increase in city pension contributions over that period, even though that had more-logical explanations that didn't include thievery.

General in War Against Unions

But the Mayor, while hard to categorize ideologically, has his share of prejudices based on his background as a businessman accustomed to making his own luck and his own rules. And in allowing the national fiscal crisis and its effect on localities to stoke his drive to reduce post-retirement compensation for city workers so that it is more in line with the private sector, he has become one of the primary cheerleaders in what is a largely ideological battle against public-employee unions.

Those who wage it, from elected officials including Mr. Bloomberg to the various outposts of Rupert Murdoch's media empire, tend to be careless about things like bargaining history and context, as well as the facts. They also have looked to whip up a public frenzy about high pension costs by either singling out a handful of cases in which individuals gained the right to generous pensions they may not have deserved, or by pretending that the big rise in employer costs is not going to abate unless radical action is taken.

On the latter front, evidence to the contrary was provided by a little-noticed report on the city's economy released Dec. 15 by City Comptroller John Liu that noted that in the fiscal year that ended June 30, the earnings of the city's five pension systems were 14.2 percent, about 75 percent above the projected rate of return. This, Mr. Liu said, would allow the city to cut its pension contributions over the coming three fiscal years by $365 million. Just as encouraging, the report found that during the first four months of the current fiscal year, the pension systems were earning 12 percent on their investments.

Mayoral spokesman Marc LaVorgna emphasized that this would not reduce the $1.4-billion increase the city had to make in its pension contributions after poor returns for several years before that led the City Actuary to reduce the assumed earnings rate. "The pension fund returns from last [fiscal] year are already factored into the budget," he said. "We had plenty of up-years in the mid-2000s."

Which is true. While data from all five systems was not available, the Teachers Retirement System, which is the second-largest, averaged a return of 13.5 percent from fiscal 2004 through fiscal 2007. The current problems arose because during a five-year period sandwiching that era, TRS had an average loss of 7.3 percent, or more than 15 points below the projected annual rate of return.

Evened Out Over 25 Years

But looked at over a 25-year period—and actuaries tend to view investment returns in groupings of seven years or greater—TRS investments returned 8.35 percent, or slightly above what is the assumed rate. And this raises real questions as to whether, contrary to what the Mayor has been saying and Governor-elect Andrew Cuomo has been hinting, the city and state pension systems really need drastic overhauls rather than smaller modifications to reflect the reality that the longer average life-span of workers will strain government's long-term ability to pay benefits under current formulas.

Certainly the leaders of the city's two largest uniformed unions—whose pensions have been the primary target of the Mayor and pro-business think-tanks—thought so.

PBA President Pat Lynch said in a statement, "The dramatic increase in the interest earned on pension-fund investments reminds us of the cyclical nature of the market. We must remember that during boom times the city benefited to the tune of billions of dollars in pension-fund interest taken in exchange for the defined benefits for our members... viewed over the long term, the pension funds are much more stable than the city portrays."

Uniformed Firefighters Association President Steve Cassidy noted that over the first four months of this fiscal year, Fire Pension Fund returns were already up by more than $1 billion, a growth of nearly 15 percent over last year's strong gains, and remarked, "The investment returns have been terrific, and that does bode well for the future. Much of the [pension] rhetoric is really part of a campaign to extract the kind of 'pension reform' that they want."

Two days before the good pension news, the Wall Street Journal published an op-ed piece by Minnesota Gov. Tim Pawlenty, who is expected to seek the Republican nomination for President in 2012, under the headline, "Government Unions vs. Taxpayers," with a drop-off head of, "The moral case for unions—protecting working families from exploitation—does not apply to public employment."

Mr. Pawlenty waxed nostalgic about the American labor movement's origins as "a triumph for America's working class. In an era of deep economic anxiety, unions stood up for hard-working but vulnerable families, protecting them from physical and economic exploitation."

Nostalgia With An Ax to Grind

He made clear, however, he was talking about conditions of the past, including his own childhood "in a blue-collar meatpacking town: hard hats, work boots, tough conditions and gritty jobs." He contrasted those types of employees—he didn't say "real men," but you got the picture—with his view of the enemy within: "The rise of government unions has been like a silent coup, an inside job engineered by self-interested politicians and fueled by campaign contributions. Public-employee unions contribute mightily to the campaigns of liberal politicians ($91 million in the midterm elections alone) who vote to increase government pay and workers."

He went on to call for the end of defined-benefit pensions for government employees, saying they should be given the same 401(k) plans that are standard in the private sector, and stated, "Ironically, public-sector unions have become the exploiters, and working families once again need someone to stand up for them."

What is most interesting about this diatribe is that Governor Pawlenty is considered to be part of the establishment wing of the Republican Party, as opposed to say, Sarah Palin, who some within the GOP disdain because she is considered a loose cannon who hasn't educated herself about the issues. The Minnesota Governor's version of the facts may play well in Murdochland, but it begins to take on water under real-world scrutiny.

Take, for example, his attempt to link what he describes as runaway public-employee benefits to their unions' alliance with "liberal politicians," meaning Democrats. In New York State, at least, this is far from the case: Republicans, including Governors and Mayors as well as legislators, have been happy to approve significant benefit gains in return for labor support.

Those Liberals, Rudy and George

In fact, one of the biggest reasons for the city's need over the past decade to dramatically increase its pension contributions was a deal worked out between the public-employee unions and Gov. George Pataki and Mayor Rudy Giuliani, both Republicans, that was blessed by a Democratic State Comptroller, Carl McCall. In June 2000, when robust pension returns left the city and state systems with excesses (TRS averaged returns of 17 percent over the previous five years) a deal was reached under which a higher earnings rate was assumed and the city and state governments were allowed to withdraw money they had contributed to the systems (in the city's case, $850 million) in return for granting a cost-of-living adjustment to retirees and reducing the required contributions by active workers.

The ink was barely dry on that deal when the stock market started to go south: Fiscal year 2001, which began July 1, 2000, produced a loss of 8.2 percent on TRS investments, beginning a decade in which that system's average return was just 2.48 percent, even with the four strong years in the middle of it. Mr. Bloomberg, and other elected officials like Governor Pawlenty, tend not to criticize Mr. Giuliani and Mr. Pataki for their short-sightedness in making to what was known as the “pension restart” deal, either because they don’t know of their roles or find it’s a much-smoother narrative if you just pin the blame on the public unions and their “liberal” benefactors.

‘Easy to Blame Public Workers’

“Throughout the history of time,” Mr. Cassidy said, “whenever there’s been some kind of crisis, people tend to look for somebody to blame. In this fiscal crisis, the leaders are going to blame public employees. I know we’re under attack on a lot of fronts. Reality is also that there are some real fiscal problems for the city and state. But no matter what we’ve already done to help, they’re going to act as if we haven’t done anything and look to blame us.”

The Post, using statistics eagerly supplied by the Bloomberg administration, over the past couple of years has harped on the growing number of six-figure disability pensions given to retired firefighters, paying little notice to the fact that this reflects a spike caused by illnesses resulting from extended work at Ground Zero following the World Trade Center attacks. For most of them, the additional compensation they receive over the next few years is unlikely to equal what they would have collected under ordinary service pensions over lives that weren’t shortened by 9/11-related illnesses.

And for every uniformed commander who has retired on a six-figure disability pension for less-serious ailments in recent years, you can find a dozen or more city employees in the same position as the just laid-off city Off-Track Betting workers who are older than 50, yet years from qualifying for a full pension and sorely in need of another job. For them, a city pension is anything but a windfall, but the Mayor is making a broad-based case that all city employee pensions are too easily obtained and too generous.

Gains May Last a While

Pension earnings in any given year are, as the Mayor’s spokesman noted, “an often-unpredictable and unreliable means of operating a [pension] system.” The fluctuations, however, tend to run in bunches, both good and bad, meaning that 16 months of strong returns is more likely than not to be the start of a good three- or four-year run.

And so much as the Mayor has indulged the temptation to let a crisis fuel an opportunity for major pension changes, it might be time—particularly in light of the CityTime debacle—for him to take a breath and shift his focus to what went wrong and what it says about his contracting-out process, and see whether fixing it can yield the kind of quick, large-scale savings that wouldn’t be offered in the near future anyway by major pension changes.

One reason government doesn’t work as well as it should is that elected officials often lack the humility to recognize their mistakes, then examine them carefully enough to learn something.