

Start-Up Costs for Tier 6 Outweigh Early Savings

By MARK TOOR | Posted: Monday, February 13, 2012 5:00 pm

Governor Cuomo says his Tier 6 pension proposal will save the state billions down the road, but if it passes the Legislature the state will lose money on it as soon as it's implemented.

Mr. Cuomo's plan does not mention start-up costs, according to a Feb. 7 statement by State Comptroller Thomas P. DiNapoli's office that accompanied its analysis of Mr. Cuomo's budget. Mr. DiNapoli's actuaries estimated the state would spend between \$7 million and \$16 million setting up the new tier. "The cost for implementation for local governments has not been calculated," the statement said.

'No Immediate Savings'

Union officials said that means the plan, for the first year anyway, would wind up costing the state money rather than conserving it. "It will cost far more than it saves because there's no immediate savings from the new tier," said Stephen Madarasz, a spokesman for the Civil Service Employees Association.

He said the disparity underscored the CSEA's message: "on this budget, what you see is not what you get."

"We agree the costs would outweigh any potential savings (of which there would be none in the beginning)," Darcy Wells, a spokeswoman for the Public Employees Federation, said in an e-mail.

Mr. DiNapoli, joined by legislative leaders, also questioned budget provisions Mr. Cuomo's opponents described as a power grab, allowing him to move money around without legislative approval.

'Minimal Impact on Spike'

The Comptroller's analysis also said that the Tier 6 proposal "would have minimal impact on the spike in rates caused by investment losses from the near-collapse of the financial-services sector in the Great Recession in 2008 and 2009."

In 2009, the state's Common Retirement Fund lost \$40 billion. Because gains and losses are averaged over a period of several years, the state and municipalities have been required to put in additional money to make up for it.

The rising pension bills in a time of declining tax revenue and Federal aid put the state and municipalities in a difficult position—one that is not relieved by the fact that state and municipal contributions were minimal or nonexistent when investments performed better. But the savings from Tier 6 won't be meaningful until well after the spike has passed.

The proposed plan would charge workers a greater percentage of their pay to fund pensions that would be calculated more conservatively. It would exclude overtime from final-average-salary calculations and raise the retirement age to 65. For the first time, it would offer employees the choice between the traditional defined-benefit plan and a 401(k)-style defined-contribution plan. The plan would cover both state and New York City workers.

“Both the proposed defined-benefit and defined-contribution plan would also reduce retirement security for future workers,” the Comptroller’s analysis says. Mr. DiNapoli has been a defender of the current pension system, saying that it is adequately funded and that 401(k)s are too risky.

He also criticized sections of the budget that he said would reduce oversight by his office and by the State Legislature.

“The proposed budget includes language that would allow the executive to move spending authority from one agency to another with minimal oversight, or legislative input, and without regard to the original intent of the funding in the enacted budget as approved by the Legislature,” statement said. “Also, public authorities would be authorized to transfer monies to any other public authority as long as the transfer is approved by their governing board.

Warns of Unbridled Discretion

“This raises the possibility that an authority could use monies generated for one program or purpose, such as tolls intended for highway or bridge maintenance, for an entirely unrelated purpose,” it continued.

He also questioned initiatives “intended to improve government efficiency...that also reduce transparency, accountability and oversight. For example, the executive proposes to exempt agency contracts from the State Comptroller’s review and approval...The Comptroller’s Office ensures that contracts are awarded fairly and openly and are the best value for taxpayers.”

State Assembly Speaker Sheldon Silver and State Senate Majority Leader Dean Skelos also indicated they had problems with the provisions Mr. DiNapoli said would reduce oversight. “We have concerns about the specific language contained in the proposal,” Mr. Silver said in a statement. He told the Albany Times Union that the Legislature needs to have a say in any reallocation of funds.

'Talk to Us Before Changing'

“I believe when we appropriate and make a decision jointly with the Governor, money should be spent a certain way, that’s the way it should be spent,” Mr. Skelos said. “If the Governor thinks it would be more efficient to spend it another way or another direction, then come back to the Legislature and we’ll work it out.”

State Sen. Liz Krueger, during hearings on the budget last month, said she was disturbed by the

provision. “I have a great fear that this paragraph actually goes far, far beyond even the court-case interpretation of the constitutional authority of the Legislature vs. the executive,” she said.

Mr. Cuomo told reporters in Syracuse Feb. 8 that he was speaking for the people and that the lawmakers who oppose his proposals just want to keep the status quo. “The Albany politicians created this system. I’m trying to change it,” he said. “They’re trying to protect it.”