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Norman Seabrook Scandal May Just Be the First

Eighty welfare plans operate with minimal oversight

By Greg David

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U.S. Attorney Preet Bharara's ominous warning earlier this week—"It is too bad that we seem to find corruption everywhere we look"—is even more chilling when one understands the pension fund at the heart of the fraud charges against correction union leader Norman Seabrook. It is not a pension fund exactly but one of 80 or so union-run welfare plans that operate with minimal oversight.

Here's the difference.

The city maintains five major pension funds that boast some $56 billion in assets. Each has a board composed of representatives of the mayor, city comptroller and the unions whose members benefit from the funds. The structure isn't the best and leads to overly high administrative fees and slow investment decisions (two problems that Comptroller Scott Stringer is trying to fix).

But the comptroller and the mayor exercise significant control over the funds and would pay a political price if anything like what allegedly happened in the Seabrook case were discovered.

The "pension fund" in the case of the correction officers union is actually a welfare fund established by the union to benefit its members, in this case with annuities on retirement or lump-sum payments at the end of employment. Most of these 80 funds provide additional health benefits including drug coverage, dental and vision care, and some also provide supplemental retirement money. Taxpayers fund them—in the case of the correction union plan, the city contributed $1,400 per officer, per year.

The Seabrook charges are illustrative of the dangers. According to Bharara, decisions about the fund were supposed to be made by a five-member board of union officers. In practice, Seabrook made the decisions unilaterally. None of the other officers stood in the way when Seabrook decided to send $15 million of the annuity fund (and $5 million in other union money) to a high-risk hedge fund, allegedly for a kickback he thought would be at least $100,000 a year. Even the lawyers and advisers who raised alarms about his plan to invest almost 20% of the welfare fund's assets in a high-risk hedge fund didn't press their objections, because he could have fired them.

Six years ago the Citizens Budget Commission surveyed union benefits funds and found they were subject to only the most minimal reporting requirements with the city comptroller, that many didn't meet their obligations anyway, and the comptroller had no power to act when they didn't

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follow the rules. At the time, city payments to welfare funds exceeded $1 billion a year. (I haven't been able to find an updated number.)

In its final year, the Bloomberg administration proposed consolidating the welfare funds, which are having difficulty funding their drug and other benefits amid rising costs. Combining them would provide purchasing power and administrative efficiencies, for sure, but the unions have shown no interest in doing so. Given the Seabrook charges, that raises an important concern: Is there corruption among any other of the 80 similar funds? That's certainly a question worth investigating.