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Paterson and Unions Agree on Limits for New Pensions

By DANNY HAKIM

ALBANY — Gov. David A. Paterson and the state's public employee unions announced an agreement on Friday that would reduce pension benefits for future public employees and save the state billions of dollars in an attempt to control ballooning costs for retirees.

To win their support for the deal, the governor provided the unions with significant incentives and backed off earlier demands for concessions from current employees.

Mr. Paterson will shelve his plan to lay off 8,700 workers and will drop a proposal to require existing workers to give up their 3 percent annual pay raise this year and to defer a week's pay. In addition, 4,500 workers will be offered $20,000 buyouts.

Paterson administration officials said the agreement would save the state $30 billion over 30 years, but much of the savings will not be realized for another decade.

"This agreement is a huge win for New York's taxpayers and will lead to the most significant reform of our public pension system in decades," the governor said in a statement. "This is real reform to the pension system, which will substantially reduce costs to the taxpayers of New York State."

The agreement will raise the retirement age for future employees from 55 to 62, and require them to contribute 3 percent of their salaries to their pensions for their entire careers, instead of for their first decade of service, which is the current requirement.

New workers will not become vested in the pension plan until they reach 10 years of service, rather than the current five. The deal will also limit the amount of overtime that employees can use in their last years of work to increase their pension benefits.

The agreement requires legislative approval, though endorsements by the governor and the labor unions virtually assure its success.

The deal covers state workers and local governments outside New York City; the Paterson administration hopes to negotiate a similar agreement for New York City employees, but city unions are adamantly opposed to doing so. New York City has its own retirement system. The deal also does not affect police officers, correction officers, teachers and firefighters.

The urgency of the need for changes in retirement benefits was underscored last week when the state comptroller's office reported that the pension fund, hobbled by losses amid the market's collapse, had shrunk to $109.9 billion at the end of March from $153.9 billion a year earlier.

The deal comes days after Mr. Paterson shocked and angered police and fire union leaders by refusing to allow new officers and firefighters across the state to continue to enroll in enviable pension benefits that were phased out in the 1970s for other public employees. The governor vetoed routine legislation that would have extended the benefits — similar bills have been signed by a series of governors going back to 1981.

While his veto was praised by budget watchdogs as a sign of rare resolve from the governor, his latest labor deal received mixed reviews.

Though the administration is hoping that the buyouts and an offer to allow employees to choose a reduced workweek will still generate immediate savings, the cash-poor state will be providing raises to the 129,000 employees covered under the deal announced Friday. Those raises will cost $180 million, at a time when some other states are freezing salaries and furloughing workers. There is also a cost of up to $90 million for the buyouts.

Further, New York has a history of reversing its pension cutbacks. The state has previously required that employees contribute to their retirement beyond 10 years of service, only to roll back the requirement in an election year. Union leaders, who had criticized the governor during months of negotiations, succeeded in their insistence that existing labor contracts not be reopened.

“The governor moved significantly from his original demands for major contract concessions from the state’s work force,” said Kenneth Brynien, president of the Public Employees Federation. “Considering the deteriorating condition of the state’s finances, this represents a reasonable accommodation.”

Danny Donohue, the president of the Civil Service Employees Association, said his union “recognizes these are extraordinary times with unprecedented challenges, and we have tried to find ways to help without reopening contracts.”

The agreement creates the first new pension category for state employees since 1983 — it is called Tier V because it is one of five such classifications, and provides the least generous benefits.

But it is not likely to encompass the city. A key labor leader in New York City called it a nonstarter, given that only this week city unions concluded negotiations that led them to amend health benefits for more than 550,000 current and retired employees, guaranteeing $400 million in savings over two years.

“The city unions just completed long, tough negotiations with Mayor Bloomberg,” said Harry Nespoli, the head of the Municipal Labor Committee. “As far as Tier V is concerned, it’s not negotiable,” he said, adding, “We’ve done our share.”

Financial analysts had varying views on the agreement.

“Obviously the benefits to the state, or its taxpayers, are not immediate,” said Jeremy Gold, a New York actuary and economist who has contended that governments often understate the ultimate costs of pension benefits. But he added that restraining the benefits of future hires “may be the beginning of the way out.”

Edmund J. McMahon, director of the Empire Center for New York State Policy, a conservative-leaning research group, said the governor had not gone nearly far enough. Referring to the 4,500 buyouts, he said the deal “allows you to pay more money to union members who are already ready to retire.”

Mr. McMahon said he believed New York and other states needed to follow the shift embraced by the private sector away from the traditional defined-benefit pension plan to a 401(k)-style retirement program to prepare for a potentially calamitous future increase in pension costs.

Speaking of the governor’s deal, Mr. McMahon said, “If you contrast this to what is happening in other major states, where you have union agreements of givebacks or furloughs, it’s remarkable.”

Elizabeth Lynam, the deputy research director of the Citizens Budget Commission, a nonprofit policy group, called the move “a really good start.”

“It’s going to be tough to find the money to do the buyouts, but the pension tier is significant,” she said. “If you think about the $45 billion the pension fund lost this year, a new pension tier is desperately needed.”