

Carol Kellermann: Pension reform is highest priority

Cuomo, Legislature must focus on controlling costs.

By Carol Kellermann

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Gov. Andrew Cuomo's second executive budget, due Tuesday, will establish his fiscal agenda for the coming months' negotiation with the state Legislature. A second year of progress toward more sustainable government spending is important, and measures that reduce costs over the long term are crucial. Topping the list is pension reform. The governor has a strong hand in the budget process, and he should use it to bring about more affordable pension benefits at all levels of government.

In fiscal year 2009, the most recent year for which there is available comparative data, New York's state and local tax burden was the third highest in the country at \$143 per \$1,000 of personal income—40% above the national average. Pension costs are a contributing factor, at \$12 per \$1,000 of personal income, more than 70% above the national average and the second highest among the 50 states. Per person, New Yorkers pay \$574 a year in taxes for public employee pensions, more than twice the national average.

The burden is expected to get worse. New York City and the MTA, largely left out of previous reforms, face sharp increases. New York City's pension costs were \$2.4 billion in FY 2004 but are expected to reach \$8.6 billion by FY 2014—an astoundingly high average annual growth rate of 14%, which will amount to 40% of payroll and 12.5% of total revenues. At the MTA, the pension costs for the subways, buses, bridges and tunnels will rise from \$314 million in FY 2004 to \$1 billion in FY 2014—an average annual growth rate of 12%. Left unchecked, pension costs will total 30% of payroll and 19% of fare and toll revenue by FY 2014.

The state, local governments and school districts also face serious challenges. State government pension costs are expected to grow from \$455 million to \$2 billion from FY 2004 to FY 2014, and they would have been much higher had the state not made the unfortunate decision to amortize required payments, with interest. Local governments and school districts face pressure from the 2% property-tax cap and will be hard-pressed to explain their budgetary choices to voters if state leaders do nothing to provide relief from the pension costs they mandate.

A new package of pension benefits for new employees would bring New York more closely in line with national norms, saving New York state and local governments \$123 billion over the next 30 years. Public sector employees in New York state are entitled to an attractive pension plan, but not one that is among the costliest in the nation. A pension reform proposal should be in the governor's budget, and the Legislature should swiftly adopt it.

Carol Kellermann is president of the Citizens Budget Commission.