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Cuomo's reforms are perfectly fair

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Gov. Cuomo's proposed "Tier VI" pension formula for future state and local government employees is more than fair by national standards. With New Yorkers now paying more than twice the US average per person for public-employee pensions, it's time to rein in these costs.

One feature of the proposal is to raise pension contributions by new employees to between 4 percent and 6 percent of wages, depending on pay level. (No current employees would be required to pay more, only new ones.) This would simply move New York closer to the middle of the US pack.

The basic contribution rate for most recent state and city hires is 3 percent of salary for the duration of their careers, with some variation by fund, based on union preferences. For example, for teachers in the NYS Teachers Retirement System, the rate is 3.5 percent of salary, with the option to retire at 57 instead of 62. New members of the NYC Police and Fire funds have the most generous arrangement, paying 3 percent for 25 years and nothing thereafter.

These employee-contribution rates are low compared to what is required in public-sector-retirement systems nationally. In 2009, only 22 percent of state and local pension plans required employee contributions of less than 3.9 percent of wages.

Cuomo's proposed sliding scale would place New York among plans with rates ranging from 4 to 5.9 percent — leaving the state more generous than most. In 2009, employee contributions of 6 percent or more were required in 55 percent of US public plans.

New York's employee contributions are also low when compared with nationwide employer-employee data. In 2010, employers in US state-run public-pension funds paid on average 66 percent of the total; employees paid 33 percent — a ratio of 2:1. By contrast, New York state and participating local governments paid 89 percent, and employees paid 11 percent — a ratio of 8:1.

Virtually the same is true for pension plans run solely by local governments. In 2009, 87 percent of the amount paid to New York's local plans — primarily New York City's — came from

taxpayers, and just 13 percent came from employees. That's a ratio of 7:1, compared to a national average of 4:1.

A significant disadvantage of the relatively low employee contribution rates in New York is that almost all of the downside risk from market downturns is borne by employers and, ultimately, taxpayers. The governor wants to address this problem with a "risk-reward" approach, which would share the downside risk and the upside potential with employees. If the employer-contribution rate as a share of payroll rises above 7 percent, then half of the added amount would be contributed by employees. On the other hand, if employer contributions fall below 4 percent of payroll, then half of the saved amount would be used to lower employee contributions.

Compared to their public-sector peers in other states and localities, New York's public employees pay relatively little to maintain the security of their pension plans. Requiring future employees to contribute up to 6 percent of salary is reasonable and appropriate. It would make pension costs more sustainable and provide needed relief for taxpayers.

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