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NYC's Gold-Plated Worker Perks

By CAROL KELLERMANN

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New York City taxpayers are paying $10.4 billion this fiscal year for pension and health-insurance benefits for current and retired municipal employees. That's a huge cost -- and a new survey shows that it's out of balance with the job market.

Taxpayers could save $1.4 billion or more a year if the city offered benefits similar to those in the private sector.

The $10.4 billion includes payments for the health insurance of current employees ($2.5 billion) and for retirees ($1.2 billion), plus contributions to pension funds on behalf of current workers ($6.7 billion). The total is about a sixth of the entire city budget -- and rising rapidly.

For much of the 20th Century, most government employers, including the city, provided generous pension and health benefits as part of a compensation package that typically offered salaries lower than those in the private sector. But, for the last two decades or more, the salary gap between the public and private sectors has disappeared or reversed for most job categories (excluding management and selected professions).

In 2005, the Citizens Budget Commission prepared a report showing that, for most job categories in the New York region public sector, workers got higher hourly wages than private-sector workers. With public-sector salaries now similar to, or better than, private-sector ones, the fringe benefits the city offers no longer need to be more generous than those in the private sector in order to attract high-quality workers.

To get a picture of how the city's fringe benefits compare to those of private employers in the New York area, the CBC joined with the Partnership for New York City (whose members include many large employers) to survey Partnership firms. Fifty-two companies, with a total of more than 100,000 employees in New York City, responded to the survey, which revealed the following:

Employee Health Insurance: The city is highly unusual in paying the full premium of a comprehensive health policy covering workers and their families. Among the 52 private firms, only four (or 8 percent) don't require payments toward premiums from their workers.

Retiree Health Insurance: The city's policy of paying the full premium cost for retirees and their spouses -- in order for them to have the same coverage as current employees -- is also highly unusual. Only 29 of the 52 local private companies offered retirees health insurance -- and among those 29, only two paid the full premium cost.

Pension Benefits: The city's pensions are "defined benefit" plans, whereas the private firms in the survey overwhelmingly offer "defined contribution" plans. Of the 52 firms in the survey, 47 (or 90 percent) offered a defined-contribution plan.

A "defined benefit" plan guarantees the worker a specific payment on retirement. A "defined contribution" plan requires an employer to contribute a certain amount, but the employee is not guaranteed a pre-determined benefit at retirement. And, as a practical matter, defined-benefit plans tend to be much more expensive -- and often more volatile -- for the employer.

In this recession, taxpayers are being hit hard and should have to pay only the salaries and benefits needed to attract qualified candidates to city jobs. This survey shows that city benefits are more generous than the job market requires.

If the city were to require its current workers to make contributions toward health-insurance premiums equal to the amounts paid by employees of local private-sector firms in the survey, the savings to taxpayers would be about $628 million a year. If it followed the same policy with respect to retirees, the annual savings would be another $741 million. This would lead to combined savings for health-insurance premiums of nearly $1.4 billion a year.

With respect to pension benefits, the city could be competitive with the private sector by converting to defined-contribution plans for its workers. Because the state Constitution prohibits changes in pension benefits for current workers, the new policies could be applicable only to future hires. The immediate savings would be small, but future savings would be substantial, depending on the specifics of the plan adopted.

With the cost of benefits for city employees and retirees now exceeding $10 billion a year, it's time to take a hard look at those outlays. The city can't keep paying employee costs greater than the marketplace requires and expect to remain a competitive place for private-sector employers to do business and create jobs.

Carol Kellermann is president of the Citi zens Budget Commission.