

CITIZENS BUDGET COMMISSION

1 Penn Plaza * Suite 640 * New York, NY 10119

Contact: Carol Kellermann Charles Brecher
212-279-2605, ext. 322 212-279-2605, ext. 315

CBC CALLS FOR REFORM OF TAXPAYER-SUPPORTED NEW YORK CITY MUNICIPAL UNION WELFARE FUNDS

Taxpayers Could Save Money and Union Members Could Get Better Benefits From \$1 Billion In Public Funds Contributed Annually

New York, NY – August 3, 2010 – The Citizens Budget Commission (CBC) today released a report, *Better Benefits from our Billion Bucks*, calling for reform of the New York City municipal union welfare funds. These little-known funds – part of the City’s compensation of municipal employees – receive \$1 billion in taxpayer contributions annually. Yet these payments serve neither the City nor its workers well. Equivalent or better benefits could be provided for less money by using other arrangements. Reforms could yield a “win-win” in which workers are better served and taxpayers save money.

The City of New York, in addition to paying salaries and traditional fringe benefits for municipal employees, makes annual payments to municipal union welfare funds. These funds are legal entities created by individual unions for the purpose of providing additional benefits to their members (both active and retired).

Fifty-eight unions representing New York City employees have each established at least one welfare fund, for a total of 81 funds. Each fund is governed by a board, whose members are typically appointed by (and may overlap with) the leadership of the parent union. The funds hire employees to help administer their benefit programs, which typically provide for prescription drugs, dental care, optical services, and other care over and above the health insurance coverage provided by the City.

The amount that the City pays to a union’s welfare fund or funds is negotiated separately with each union. The amount is typically specified on an annual “per head” (employee and/or retiree) basis. In fiscal year 2010, for example, the recurring annual payment for the Uniformed Sanitationmen’s Association was \$1473 per head, for the United Federation of Teachers was \$1720, and for District Council 37 was \$1640. Each union also received a one-time payment of another \$200 per head in that year. The average increase in per head welfare fund payments has far exceeded the rate of inflation, with the constant dollar amount generally growing an average of four to seven percent annually.

The current arrangement suffers from three long-standing problems:

- **Limited Accountability** – The City Comptroller, through a document called Directive #12, prescribes accounting, auditing and financial guidelines for welfare funds that receive payments from the City. Unfortunately, compliance with Directive #12 by many funds is neither timely nor complete. While the directive mandates that funds provide financial and operating information within nine months of the close of their fiscal year, for fiscal year 2007, 69 funds submitted late filings, four of which were over a year late; 15 funds submitted filings that included qualified or adverse statements from their auditors; and two funds submitted no financial information. In addition, Directive #12 grants the Comptroller’s Office no real authority to sanction funds that either do not comply or exhibit weak or improper financial management.
- **Weak Financial Management** – The most recent report on the funds by the Comptroller cites three types of issues: excessive administrative costs, inappropriately high reserve levels, and signs of insolvency such as low reserves and operating deficits. At the end of 2007, three funds were insolvent: the Teamsters Local 832’s Retiree Welfare Fund, Local 1183 Board of Elections’ Retiree Welfare Fund, and the Superior Officers Council’s Retiree Welfare Fund. With respect to Local 832, which also had run operating deficits in the last two years, the Comptroller stated: “We question the ability of Local 832 Teamsters RWF to continue to operate and provide benefits to its members.” In addition to the insolvent funds, the Comptroller identified ten funds with relatively low reserves and at risk of insolvency.
- **Inefficient Provision of Benefits** – The primary reason for using multiple, independent, welfare funds to provide supplementary welfare benefits is to allow for discretion and variability among different union memberships for the specific benefits they desire. While theoretically attractive in some respects, in practice this approach has serious shortcomings that more than offset its assumed benefit of responsiveness. First, there is relatively little variability in the benefits different union members seek. Second, the use of multiple small funds increases administrative costs. Third, the potential for greater economies of scale extend beyond administrative operations. For the health care benefits that consume most of the welfare funds’ resources, the general rule is that better buys are available when the purchaser represents a larger volume of business. Finally, many of the smaller funds likely lack the expertise needed to design the most cost-effective benefit packages.

Recommendations

Three reforms could yield better benefits for union members and savings for taxpayers.

- **Consolidate Supplementary Health Care Benefits Under the City’s Health Insurance Plan**

The varying and inefficient package of drug, dental and optical benefits provided by the multiple welfare funds should be replaced by a standard set of benefits included under the City’s health insurance program. Each of the health insurance plans that competes for the business of municipal employees and retirees should be asked to alter their package to include these benefits; alternatively multiple supplementary benefit packages might be offered separately from the medical and hospital insurance package. Either way, the municipal workers and retirees would benefit from large-scale purchasing through a citywide

program and from the expertise of the staff administering the citywide program in benefit design. Total savings are estimated at about \$146 million annually.

- **Provide Non-health-related Benefits through a Centralized Cafeteria Plan**

Eight to 16 percent of the current welfare fund expenditures go toward non-health-related benefits. This is a diverse set of benefits, and there likely is considerable variability in the benefits that individual members might want. For these benefits, a new centralized plan should be developed. It could be administered by the City through the existing benefit offices in the Office of Labor Relations or be administered by a coalition of unions. In either case, meaningful economies of scale should be achieved. The new centralized entity should offer benefits in a “cafeteria plan” model. This approach offers a range of benefits and allows individuals to select the benefit they use in a given year, based on their needs, with a limit on the dollar value of the benefits.

- **Improve Accountability for any Remaining Union Welfare Fund Expenditures**

Shifting responsibility for health-related benefits to the City will remove much of the current spending from the auspices of union welfare funds. In addition, a new arrangement for other types of benefits could fully eliminate the need for union welfare funds to administer benefits in the future. However, these funds may remain with some residual responsibilities, and relying on a union coalition to manage non-health benefits would create a new entity that ought to be highly accountable. Accordingly, new standards should be set for accountability of existing and any new union welfare benefit funds. The new standards should improve upon the requirements in Comptroller’s Directive #12. Limits should be placed on allowable administrative expenditures and reserve requirements established. In addition, new enforcement powers should be given to the Comptroller. That office should be able to sanction entities that fail to meet standards in an adequate or timely fashion, and repeated violations should result in removal of fund officials.

“Neither taxpayers nor union members are served well by the current system,” said CBC President Carol Kellermann. “It needs to be reformed.”

“These are public funds poorly managed,” said CBC Research Director Charles Brecher. “And taxpayers deserve to have their hard-earned resources better spent.”

A full copy of the report is available at www.cbcny.org. For further information, contact Kevin Medina at 212-279-2605 x342.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.