The Case for Redesigning Retirement Benefits for New York's Public Employees

Citizens Budget Commission

April 29, 2005

FOREWORD

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City. This report was prepared under the auspices of the CBC's Budget Policy Committee, which we co-chair. The other members of the Committee are: Lawrence D. Ackman, Richard H. Bagger, Stephen Berger, Lawrence B. Buttenwieser, Evan A. Davis, Stephen DeGroat, Cheryl Cohen Effron, Roger Einiger, Laurel FitzPatrick, Paul E. Francis, Bud H. Gibbs, Kenneth D. Gibbs, James F. Haddon, Jeffrey Halis, Walter Harris, Patricia Hassett, H. Dale Hemmerdinger, Fred P. Hochberg, Brian T. Horey, Eugene J. Keilin, Peter C. Kornman, Robert Kurtter, Bill Lambert, Rick Langfelder, Stephen F. Langowski, Richard A. Levine, Jeffrey Lynford, Donna Lynne, Norman N. Mintz, Robert E. Poll, Lester Pollack, Alfredo S. Quintero, Carol Raphael, Edward L. Sadowsky, Bart Schwartz, Teddy Selinger, Jonathan Siegfried, Adam Solomon, Joan Steinberg, Merryl H. Tisch, Kevin Willens, and Nancy Winkler.

The Budget Policy Committee is responsible for developing the CBC's positions on the City's and State's annual budget as well as for conducting research on longer-run issues of fiscal significance. The cost of the retirement benefit package is one of the longer-run issues which cries out for attention. Research for this report was begun about one year ago in the face of unabated growth in costs for pension fund contributions and retiree health insurance. The Committee wanted to determine why the costs were so high and growing so rapidly – and what could be done about it.

Charles Brecher, Research Director, Sheila Spiezio, Research Consultant, and Janine Murphy, Research Assistant, prepared this report. A draft of the report was reviewed by several members of the staff of State Comptroller Alan Hevesi; several members of the staff of City Comptroller William Thompson; Commissioner James Hanley of the New York City Office of Labor Relations, John Gibney of the staff of the New York City Actuary, and Robert Brondi of the New York State Division of the Budget. The staff is grateful for their taking time to read the draft carefully and for their suggested corrections and revisions. However, their willingness to share their knowledge and reactions does not necessarily indicate that they agree with the recommendations.

Heather Ruth
Karen Daly

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EXECUTIVE SUMMARY

This report presents recommendations for redesigning the retirement benefits – health insurance and pension payments – for employees of the City of New York and State of New York. It includes a description of current benefits and a comparison to benefits provided by other large private and public employers.

Findings

The three major findings are:

1. Retirement benefits are a large and rapidly growing expense for the City and the State.

For the City, required contributions to pension funds tripled, rising from $615 million in fiscal year 2000 to $2.3 billion in fiscal year 2004; they are projected to nearly double again by fiscal year 2008, reaching $4.7 billion. Similarly, required pension fund contributions from the State jumped from $218 million in 2000 to $592 million in 2004, and are projected to double to nearly $1.4 billion in 2008. Employer health insurance payments for workers and retirees have been growing at or near double-digit rates in recent years, and the combined cost of this benefit for the City and State will rise 50 percent from $4.2 billion in 2004 to $6.3 billion in 2008. In addition, as employers, the State and City pay the federal government more than $2 billion annually in payroll taxes to help finance Social Security benefits for their workers. While some of the growth in pension contributions is related to the stock market declines of 2000-2001, retirement benefits will remain a significant expense in coming years.

2. The benefits provided by the City and State are more generous than those provided by large private employers, the federal government and most other states and localities.

Health Insurance. New York City and New York State provide health insurance benefits for retirees and their dependents, but the arrangements vary between the two governments. For City retirees and their dependents, the City pays the full premium cost of insurance policies that are comparable to those provided full-time workers. For State retirees who began work before 1983, the State pays 100 percent of the premium cost of a comprehensive insurance policy for individuals and 86 percent of the cost for a family. For retirees who started after 1982, the State pays 90 percent of the cost of an individual policy and 82 percent of the cost of a family policy. For retirees age 65 or over, the State and the City pay the full cost of Medicare Part B premiums.

In contrast, among large (200 or more workers) private employers, only 38 percent offer retirees health insurance benefits. Among the largest (1,000 or more workers) employers, less than 10 percent paid the full premium, more than one-fifth paid no part of the premium, and the employer's average share of the premium was about 60 percent. Only 9 percent of large private employers pay any share of Medicare Part B premiums.

For retirees from federal service, the government pays 75 percent of the premium cost and no part of Medicare Part B premiums. Among the 50 states, New York is one of only 16 who pay the full premium cost; in 12 states the employer pays no part of the premium cost. New York is among only six states that pay any portion of Medicare Part B premiums.

Pension Benefits. City and State employees participate in defined benefit pension plans, while the majority of employees of large private sector firms participate in defined contribution plans. Only about one-fourth the employees of large private firms are in defined benefit plans, and this proportion has been shrinking in recent years.

Compared to other public sector pension plans, New York City's and State's are relatively generous in three ways:

1. The plans require relatively low contributions from workers, especially State workers.
2. They base benefits on a formula that includes overtime earnings, a practice rarely found in other public sector plans.
3. They give increased benefits to some workers who retire with a disability, a practice not used by most other public systems. Moreover, some City plans define disabilities in ways that allow an unusually large percentage of uniformed workers to qualify for these added benefits. For example, 43 percent of retired firefighters and 28 percent of retired police officers receive additional benefits due to a disability deemed to be job related.

3. Generous pension benefits for City and State workers can no longer be justified on the ground that these workers' wages are lower than in the private sector, because for most occupations (managers and professionals are the notable exceptions) wages in the public sector are higher than in the private sector.

Nationally, in 2004 total compensation costs averaged $35.16 per hour among public employers, 47 percent higher than the total private sector compensation of $23.90 per hour. Wages and salaries in the public sector were nearly 42 percent higher, and fringe benefits over 60 percent higher, than in the private sector.

The national comparisons have been faulted for failing to adjust for geographic differences and for failing to take into account different occupational mixes within the broad categories. However, the same pattern emerges when comparisons are made for more specific occupations within the New York region. Within this local labor market, public sector wages exceed those of private sector workers for most occupations. Public workers in the service industries, including health and food services, have earnings substantially higher than their private-sector cohorts. Blue-collar workers in the public sector earn nearly 30 percent more than similar workers in the private sector, while white-collar workers in the two sectors overall have similar earnings. In contrast, executives and some professional occupations such as engineers and architects in the private sector earn more than similar workers in the public sector.

Although no private sector occupations are fully comparable to public uniformed services, the adequacy of uniformed services' compensation is supported by the City's ability to attract a relative abundance of workers to these occupations. For firefighters, the exam given in 2002 yielded more than 7,500 qualified applicants for about 750 positions. For police officers, two exams given in 2000 yielded more than 11,000 qualified applicants to fill 2,000 positions; three exams offered in 2004 resulted in nearly 24,000 people qualifying for the available positions.

Recommendations

The City and State can save substantial amounts for taxpayers and still secure a qualified and competitive labor force by redesigning its retirement benefits. Both health insurance and pension benefits should be revamped.

Health insurance for retirees

The City and State provide both early retirees and those over 65 (and their families) with health insurance. Each group should continue to receive such benefits, but under terms that more closely resemble the practices of other large employers.

1. *Require retirees to pay 50 percent of the premium for health insurance for themselves and their dependents*. This contrasts with the current practice of no required contribution for City retirees and more modest current contributions from State retirees. A typical single City retiree would face an out-of-pocket cost of about $1,450 annually (if under age 65) or $800 annually (if over 65). Had this policy been in effect in fiscal year 2004, the City would have saved about $325 million and the State about $275 million. Since the premiums are projected to grow rapidly, future savings will be even greater.
2. *Stop reimbursing retirees for Medicare Part B premiums*. This practice is out-of-line with benefits provided by other large employers and contradicts the philosophical and cost-saving goals behind the premium requirement established by Congress as part of Medicare's design. In 2004 this change would have required retirees to pay about $67 monthly, and would have saved the City and State $131 million and $88 million, respectively.

Pension benefits

Efforts to change pension benefits must recognize their protected status. To alter the benefits of current employees or retirees requires an amendment to the State constitution, and that requires action by two successive legislatures and a voter referendum. This is a rare process, requiring a major political effort. Given the formidable obstacles and the tradition of protecting existing pension benefits, a constitutional change is not warranted.

The pension benefits of the newly hired are not constitutionally protected and can be changed legislatively. Changes in pension benefits for future workers yield fiscal gains only slowly. However, a willingness to seek long-run gains for taxpayers is a true test of political leadership. In order to make retirement benefits more competitive and affordable in the future, the current Mayor and Governor must take action now. The fiscal rewards will be modest in their terms, but the service to the future fiscal health of the City and State is enormous.

The long-run goal of pension reform should be to convert from defined benefit to defined contribution plans. Eventually, all City and State workers should have defined contribution plans, and the current system should fade away. This has become the dominant practice in the private sector, and it should be the approach for public servants as well.

The switch in type of plan does not intrinsically mean lower employer costs. The cost to employers under a defined contribution plan is determined by what the employer agrees to contribute. It could be more or less than is required under current defined benefit plans. In recommending a shift to defined contribution plans, the CBC does not necessarily envision an employer contribution (as a share of payroll) that is significantly less than the long-term average under defined benefit plans. The amount should be subject to collective bargaining. The case for shifting to defined contributions rests on two other fundamental points.

First, defined contribution plans facilitate worker mobility, while defined benefit plans typically reward (and even require) longevity. Under a defined contribution plan, benefits can be vested almost immediately, and the benefits are not disproportionately greater as one approaches retirement age. This is good for the workers, and good for society, because a mobile workforce is increasingly essential in a modern economy.

Second, defined benefit plans create a political dynamic that gives unique advantages to civil servants and their unions, and places the taxpayers in double jeopardy. Unions have advantages in two ways. (a) They can seek pension enhancements via collective bargaining, but when they fail in bargaining they get a second chance by going directly to the State Legislature. The Legislature can and does enact benefit enhancements over the opposition of the mayor or governor, with whom the union would otherwise have to bargain. Such "end runs" around collective bargaining are common and expensive. (b) Because the State Legislature controls the benefits, but does not pay for them (at least in the case of the City), workers have a political advantage in gaining their support. Legislators have political incentives to support union demands, but need not face the taxpayers in raising the money to pay for them. A better balance would be to keep benefit terms confined to collective bargaining, thereby keeping the decisions about the level of benefits in the hands of those who pay for them. A defined contribution system could do this.

The City and State should seek to place all new workers in defined contribution plans. Legislation to achieve this goal should be introduced and enacted in 2005. If conversion of new workers to defined contribution plans cannot be authorized in the near future, political leaders should have a "Plan B." Less dramatic changes to the existing system may be a politically necessary interim step.

Changes to the defined benefit system should be guided by the comparative analysis presented in this report. The alterations in benefits should be designed to make New York's systems resemble more closely those of other large public and private employers. Five steps should be given priority.

1. ***Increase required employee contributions.*** Currently, the most common requirement is 3 percent for ten years. In most other systems, employee contributions are larger and last longer. The New York systems should require a higher percentage contribution, and not limit it to ten years.
2. ***Raise the minimum age requirement for retirement.*** Currently, police and firefighters have no minimum age, and for most other workers it is 62 or 57 for full benefits and 55 for reduced benefits. The federal Social Security system has recognized the increased life span and working lives of Americans and raised its age threshold for full benefits to 67 while keeping the criteria for reduced benefits at 62. The New York system should adopt similar age thresholds, perhaps with a lower minimum (but some minimum) for police officers and firefighters.
3. ***Base pension benefits on the more standard definition of final average salary.*** Currently the systems define FAS in ways that inflate benefits, deviate from the goal of replacing a reasonable share of a workers base salary, and are far more generous than the practices of other large employers. The FAS should be based on five years' experience and should take into account only base salary, excluding overtime and other supplements subject to manipulation.
4. ***Define work-related disabilities more rigorously.*** The current system permits workers to claim disabilities at the time of retirement and defines work-related disability, especially for certain uniformed workers in New York City, in ways that broaden access to this benefit without clear evidence of a work-related cause. These provisions should be revised to set more rigorous standards.
5. ***Eliminate the variable supplements available to some retired New York City uniformed workers.*** These annual payments or "Christmas bonuses," soon to be $12,000, supplement already generous pensions, create inequities between New York City and other uniformed workers in the State, and contradict the principle that pension payments should be a regular and predictable sources of income for retirees.

INTRODUCTION

Since the depression of the 1930s, the popular image of government employment has included three elements – job security, wages that lag those of private enterprise, and a relatively generous set of retirement benefits. Accordingly, many people opted for public sector employment because they were willing to trade the relatively low salary for the combination of job security and a respectable pension.

While these elements of the popular image may have been accurate three-quarters of a century ago, conditions have changed in more recent years – especially for employees of the City of New York and the State of New York. The collective bargaining rights won by state and local government workers beginning in the 1950s have led to a contemporary situation in which City and State employees in most occupations are paid comparable or even higher wages than their private sector counterparts. At the same time, public employees still enjoy greater job security than private workers; while there have been layoffs of City workers in periods of great fiscal stress, the incidents remain relatively rare. More importantly, as their relative wages have improved, public employees in New York also have received improved pension and health insurance benefits that make their retirement package even more attractive relative to most private sector jobs than it was in the depression era.

The current conditions suggest that a redesign of retirement benefits is overdue. The historic generosity of public sector retirement benefits is no longer necessary to attract sufficient qualified workers, and it is a major source of increased expenditures – and hence tax burden for New York residents and businesses.

The growing fiscal burden of retirement benefits is illustrated in Table 1. For the City of New York, the required contributions to pension funds for its workers tripled from $615 million in fiscal year 2000 to $2.3 billion in fiscal year 2004, and they are projected nearly to double to reach nearly $4.5 billion in fiscal year 2008. Similarly, pension fund contributions required from the State for its workers jumped from $218 million in 2000 to $592 million in 2004, and they are projected to double to nearly $1.4 billion in 2008. Employer payments for health insurance for workers and retirees have been growing at or near double-digit rates in recent years, and the combined cost of this benefit for the City and State will rise 50 percent from $4.2 billion in 2004 to $6.3 billion in 2008. In addition, as employers the State and City pay the federal government $2 billion annually in payroll taxes to help finance Social Security benefits for their workers.

The recent growth in pension contribution costs is particularly dramatic because these costs were unusually low in 2000 due to the strong stock market performance and policy decisions to accelerate the impact of the favorable market conditions on reducing employer contributions. When the market fell, needed employer contributions began to rise rapidly, but they may stabilize at the higher levels in years after 2008.

Table 1
Cost of Selected Fringe Benefits, City and State of New York
(dollars in millions)

						Projected			
Fiscal Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
New York City									
Pension Contributions	$615	$1,127	$1,392	$1,631	$2,308	$3,243	$4,219	$4,494	$4,681
Social Security	$1,101	$1,166	$1,238	$1,299	$1,262	$1,322	$1,325	$1,333	$1,342
Health Insurance	$1,653	$1,699	$1,993	$2,229	$2,406	$2,656	$2,925	$3,175	$3,475
New York State									
Pension Contributions	$218	$169	$211	$288	$592	$802	$935	$1,441	$1,381
Social Security	NA	NA	$749	$759	$749	$773	$795	$828	$851
Health Insurance	NA	NA	$1,476	$1,621	$1,749	$2,052	$2,247	$2,506	$2,779

NA - not available

Sources: City of New York actual figures are from *Comprehensive Annual Financial Report of the Comptroller*, annual editions. Projected pension contributions from City of New York, *January 2005 Financial Plan*, January 27, 2005, p. 70; Projected Social Security and Health Insurance data supplied by New York City Office of Management and Budget.

State of New York pension figures are from New York State Division of the Budget and include contributions to TIAA/CREF for SUNY employees. Actual Social Security and Health Insurance figures are from State of New York, *Comprehensive Annual Financial Report*, annual editions. Projected figures are from New York State Division of Budget, *Executive Budget 2005-2006*, Appendix II, pp. 38-39 and 46.

Changes to the retirement benefits provided to City and State employees can significantly reduce tax burdens without adversely affecting these governments' ability to attract a competent workforce. This report identifies the changes that can contribute most to lowering expenses while keeping retirement benefits competitive.

The remainder of this report is organized into four parts. The first addresses more fully the issue of the competitiveness of the wages paid to state and local government employees in New York. Because many New Yorkers still have the common belief that public sector wages trail those of the private sector, the section presents data from surveys of the New York labor market showing how the two sectors compare on wages for a wide range of occupations. The general pattern that emerges is clear – most government employees are as well or better paid than their private sector counterparts; the notable exceptions are managers and some professionals such as engineers and architects, for whom private sector wages remain better. Comparisons are not possible for some jobs that exist almost exclusively in the public sector (for example, firefighters), but the large number of qualified applicants seeking these jobs indicates those positions also are highly competitive in the contemporary labor market.

The second section describes the retirement benefits currently provided to City and State employees. The picture is complex, because the benefits vary between the State and City and among categories of workers at each level. However, a complete understanding of the variety of benefits is essential to identifying the most appropriate changes to be made in the future.

The third section compares the New York City and New York State retirement benefits to those of other state and local governments and of large private employers. The data point to several features of the New York benefits that are far more generous than those of other large public and private employers. The final section uses this comparative analysis to recommend changes to New York's retirement benefit package that yield substantial savings without harming the competitiveness of public service.

COMPARATIVE WAGES

A worker's compensation consists of future retirement benefits and current wages and fringe benefits. Historically, one justification for generous retirement benefits for state and local government employees was that current salaries and fringe benefits were lower than in the private sector. However, current wages and fringe benefits in the public sector now exceed those in the private sector for many comparable job titles.

The data supporting this conclusion derive from two types of studies. First, national studies provide comparative compensation for broad categories of workers in the public and private sectors. Second, more detailed studies of specific occupations in specific regional labor markets, notably the New York metropolitan area, show the wages of workers in equivalent jobs in each sector. Both types of studies have been completed by the United States Bureau of Labor Statistics (BLS).

At the national level, the most recent total compensation data are for 2004. Among public employers, total compensation costs averaged $35.16 per hour, 47 percent higher than total private sector compensation of $23.90 per hour. Wages and salaries were nearly 42 percent higher and fringe benefits 61 percent higher in the public sector than in the private sector. (See Table 2.) Between 1991 and 2004, public sector wages grew slightly more rapidly than did private sector wages, causing the differential to widen slightly. Previous studies have shown that much of the differential arose during the 1980s, when public sector pay grew about five times faster than did private sector pay.[1]

The national aggregate pattern also characterizes most of the major occupational groups. As shown in Table 2, blue-collar workers, white-collar workers, and service occupations were paid between 14 and 88 percent more in the public than in the private sector. The pattern is reversed for executives and managers, who enjoy an advantage in the private sector.

The national comparisons have been faulted for failing to adjust for geographic differences and for failing to take into account different occupational mixes within the broad categories. However, the same pattern emerges when comparisons are made for more specific occupations within the New York region. (See Table 3.) Within this local labor market, public sector wages exceed those of private sector workers for most occupations. Public workers in the service industries, including health and food services, have earnings substantially higher than their private-sector cohorts. Blue-collar workers in the public sector earn 30 percent more than similar workers in the private sector, while white-collar workers in the two sectors overall have similar earnings. Only executives and some professional occupations such as engineers and architects in the private sector earn more than similar workers in the public sector.

[1] See Michael Miller, "The Public-Private Pay Debate: What Do the Data Show?" *Monthly Labor Review,* May 1996, pp. 18-29.

Table 2
State and Local Government vs. Private Sector Workers, United States (a),
Employer Costs per Hour Worked, 1991, 2001 and 2004

	State and Local			Private Sector			State and Local as a Percent of Private Sector		
	1991	**2001**	**2004**	**1991**	**2001**	**2004**	**1991**	**2001**	**2004**
Total Compensation All Workers	$22.31	$30.06	$35.16	$15.40	$20.81	$23.90	144.9%	144.4%	147%
Wages and Salaries	$15.52	$21.34	$24.10	$11.14	$15.18	$17.02	139.3%	140.6%	142%
Fringe Benefits	$6.79	$8.73	$11.05	$4.27	$5.63	$6.88	159.0%	155.1%	161%
Retirement Benefits	$1.85	$1.73	$2.28	$0.44	$0.62	$0.88	420.5%	279.0%	259%
Health Insurance	$1.54	$2.45	$3.55	$0.92	$1.16	$1.58	167.4%	211.2%	225%
	1997	**2001**	**2003**	**1997**	**2001**	**2003**	**1997**	**2001**	**2003**
Wages per Hour by Occupation									
White Collar Occupations	$20.08	$23.20	$25.09	$18.08	$19.08	$21.12	111.1%	121.6%	119%
Professional Specialty and Technical	$23.84	$27.50	$29.80	$22.30	$25.26	$27.73	106.9%	108.9%	107%
Executive, Administrative, and Managerial	$23.95	$27.90	$30.06	$27.86	$28.99	$32.60	86.0%	96.2%	92%
Sales	$11.13	$12.79	$13.58	$12.80	$13.74	$15.05	87.0%	93.1%	90%
Administrative Support	$11.50	$13.17	$14.17	$11.54	$12.72	$13.69	99.7%	103.5%	104%
Blue Collar Occupations	$13.78	$15.84	$17.11	$12.24	$13.61	$14.91	112.6%	116.4%	115%
Precision Production, Craft, and Repair	$15.71	$18.09	$19.52	$15.88	$17.21	$18.84	98.9%	105.1%	104%
Machine Operators, Assemblers, and Inspectors	$12.89	$15.22	$16.52	$11.02	$12.28	$13.29	117.0%	123.9%	124%
Transportation and Material Moving	$12.93	$14.80	$15.96	$13.30	$13.37	$14.66	97.2%	110.7%	109%
Handlers, Equipment Cleaners, Helpers, and Laborers	$11.37	$13.00	$14.22	$9.18	$10.22	$11.09	123.9%	127.2%	128%
Service Occupations	$13.26	$15.42	$16.70	$7.51	$8.45	$8.90	176.6%	182.5%	188%

Sources: Total Compensation data for 1991 and 2001, United States Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation*, Historical Listing (Annual); <ftp://ftp.bls.gov/pub/news.release/History/ecec.06292001.news> (accessed March 22, 2005). Total Compensation data for 2004, United States Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation*, December 2004, Released March 2005, <ftp://ftp.bls.gov/pub/news.release/History/ecec.03162005.news> (accessed March 22, 2005).

Wages per Hour by Occupation data for 1997-2003, United States Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Occupational Wages in the United States*, July 2003 Bulletin 2568 <http://bls.gov/ncs/ocs/sp/ncbl0635.pdf>; January 2001 Bulletin 2552 <http://bls.gov/ncs/ncspubs_2001.htm>; August 1997 Bulletin 2519 <http://bls.gov/ncs/ocs/sp/ncbl0153.pdf>. (All accessed March 22, 2005).

Note: (a) Data are for total full and part time workers; analysis of the two groups separately showed no difference in the relationship between the two sectors.

Table 3
Mean Hourly Earnings
State and Local Government vs. Private Sector Workers
Regional Labor Market (a), April 2004

Occupation (b)	State and Local	Private Sector	State and Local as a Percent of Private Sector
TOTAL **	**$28.26**	**$24.62**	**115%**
Service Occupations **	**$22.47**	**$11.61**	**194%**
Protective Service ** (c)	$16.19	$10.28	157%
Food Service **	$13.29	$9.66	138%
Health Service **	$16.17	$11.01	147%
Cleaning and Building Service **	$16.78	$12.63	133%
Personal Service *	$13.00	$17.18	76%
Blue Collar Occupations **	**$23.12**	**$17.79**	**130%**
Precision Production, Craft and Repair	$26.17	$25.71	102%
Transportation and Material Moving **	$23.07	$17.33	133%
Handlers, Equipment Cleaners and Laborers *	$19.17	$14.35	134%
White Collar Occupations	**$32.09**	**$31.12**	**103%**
Professional Specialty and Technical	**$38.57**	**$36.02**	**107%**
Professional Specialty	$39.94	$37.87	105%
Engineers, Architects and Surveyors **	$28.69	$39.56	73%
Health Related **	$26.67	$34.35	78%
Teachers, College and University	$53.69	$55.21	97%
Teachers Except College and University **	$44.11	$25.03	176%
Librarians, Archivists and Curators	$38.50	$34.57	111%
Social Scientists and Urban Planners	$43.68	$28.44	154%
Social, Recreation and Religious Workers	$26.92	$22.11	122%
Technical **	$21.27	$28.94	73%
Executive, Administrative and Managerial	**$34.70**	**$48.68**	**71%**
Executives, Administrators, and Managers	$47.31	$54.18	87%
Management Related **	$25.32	$38.28	66%
Administrative Support Including Clerical	**$18.45**	**$17.48**	**106%**
Supervisors	$21.62	$23.79	91%
Secretaries	$20.82	$20.67	101%
Typists	$15.49	$19.57	79%
Bookkeepers **	$21.78	$17.32	126%
General Office Clerks	$15.92	$16.10	99%
Administrative Support	$16.63	$17.27	96%

Source: United States Department of Labor, Bureau of Labor Statistics, *New York-Northern New Jersey-Long Island, NY-NJ-CT-PA, National Compensation Survey April 2004* , Bulletin 3125-21, December 2004, <http://www.bls.gov/ncs/ocs/sp/ncbl0668.txt>. (Accessed March 22, 2005.)

Notes: (a) Includes New York City, seven New York suburban counties, 14 New Jersey counties, 4 Connecticut counties and 1 county in Pennslyvania. (b) Subcategories shown are those with substantial number of workers in both sectors. Data are for total full and part time workers; analysis of the two groups separately showed no difference in the relationship between the two sectors. (c) Excludes police officers and includes guards.
* Difference in wage range significant at the 90 percent confidence level. ** Difference in wage range significant at the 95 percent confidence level.

Although no private sector occupations are fully comparable to public uniformed services, the adequacy of uniformed services' compensation is supported by the City's ability to attract a relative abundance of workers to these occupations. Table 4 shows the number of people taking and passing the civil service examinations for four entry level uniformed services. For firefighters, the latest exam (given in 2002) yielded more than 7,500 qualified applicants for about 750 positions. For police officers, two exams in 2000 yielded over 11,000 qualified applicants to fill 2,000 positions; three exams in 2004 resulted in nearly 24,000 people qualifying for 2,100 positions. For correction officers, the 2002 exams resulted in nearly 4,000 qualified applicants for about 380 positions. For sanitation workers, more than 22,000 people passed the exam last given in 2003 to fill fewer than 500 open positions. This evidence does not enable one to distinguish between the attraction of cash compensation versus retirement benefits, but it strongly indicates that the combined current compensation is more than adequate and that adjustments in some part of the compensation package including retirement benefits are possible without harming the ability to hire in a competitive labor market.

Table 4
Results of New York City Civil Service Exams for Selected Uniformed Positions

Date of Exam	Number of Applications	Number Taking First Test	Number Passing Test	Average Annual Hires (a)	Ratio of Number Passing Test to Average Annual Hires
Firefighter					
1992 Exam	40,238	30,962	9,498	527	18:1
1999 Exam	23,161	17,155	6,372	527	12:1
2002 Exam	24,317	17,993	7,548	749	10:1
Police Officer					
1996 Exam	31,986	23,090	18,498	2,062	9:1
1998 Exam	21,567	16,082	10,834	2,062	5:1
Subtotal 1999 Exams	29,229	19,799	13,987	2,062	7:1
January 1999	14,202	9,391	5,624		
October 1999	15,027	10,408	8,363		
Subtotal 2000 Exams	20,419	13,422	11,213	2,062	5:1
May 2000	8,381	5,650	5,170		
December 2000	12,038	7,772	6,043		
Subtotal 2004 Exams	96,779	29,973	23,998	2,118	11:1
February 2004	31,126	11,637	8,403		
June 2004	30,509	8,318	7,087		
October 2004	35,144	10,018	8,508		
Correction Officer					
1998 Exam	6,214	4,512	4,070	562	7:1
2000 Exam	7,500	4,402	3,472	562	6:1
Subtotal 2002 Exams	9,537	5,353	3,981	382	10:1
August 2002	5,823	3,345	2,800		
November 2002	3,714	2,008	1,181		
Sanitation Worker					
1990 Exam	101,211	71,007	23,489	195	120:1
1998 Exam (b)	25,000	17,938	14,438	195	74:1
2003 Exam	40,130	26,665	22,315	470	47:1

Sources: Civil Service list data provided by the New York City Department of Citywide Administrative Services; actual hiring data provided by the New York City Office of Management and Budget.
Notes: (a) Average annual hires are a five-year average for fiscal years 1996-2000, and for fiscal years 2000-2004.
(b) For the 1998 Sanitation Workers test, the Department of Citywide Administrative Services limited the number of initial applicants by conducting a lottery.

CURRENT RETIREMENT BENEFITS

The favorable wage differentials enjoyed by most groups of New York City and New York State employees provide the context for examining their retirement benefits. These benefits are of two types – cash payments often referred to as pensions, and health insurance. For both pensions and health insurance, there is a common minimum standard provided through the federal Social Security system. In addition, employees of the City of New York and the State of New York participate in separate employer sponsored pension plans that provide cash benefits. State and City employees who retire also are entitled to private health insurance coverage as well as federal Medicare benefits. Each of these benefits is described below.

The Common Federal Programs

State and City employees, like most private sector employees, are legally obliged to participate in the federal Social Security system. This program provides cash benefits, commonly called Social Security, and health insurance known as Medicare.

Social Security

To qualify for Social Security retirement benefits, a worker must meet two types of requirements – age and work history. The necessary work history is "covered" employment subject to Social Security taxes during at least 40 calendar quarters (the equivalent of ten years). Covered employment includes almost all large private employers as well as most state and local governments. Thus, New York State and City employees who have at least ten years of work experience meet this requirement.

The age requirement is more complex. The standard retirement age was set at 65 when the program was established in 1935, but this was modified in 1983. Workers born before 1938 can receive full benefits at age 65, but a higher age threshold was set for those born later. The age criterion was raised to 66 in two month increments annually for those born between January 1, 1938 and December 31, 1943, remains at 66 for those born between 1944 and 1954, and increases to 67 in two month increments annually for those born between January 1, 1955 and December 31, 1959. Workers born January 1, 1960 or after receive full benefits at age 67. All workers have the option to retire at age 62, but there is a reduction in benefits if this option is exercised.

The amount of monthly benefits varies with a worker's previous earnings. The formula for determining benefits is complex, and is designed to be progressive in the sense that it is more generous for lower-wage workers. The "replacement rate," defined as benefits as a share of average earnings, varies from about 50 percent for low income workers to about 30 percent for workers with the maximum amount of covered (or taxable) earnings.[2]

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[2] United States General Accounting Office, *Social Security: Distribution of Benefits and Taxes Relative to Earnings Level*, GAO-04-747, June 2004.

Social Security benefits are financed with a federal payroll tax of 12.4 percent of covered wages, with 6.2 percent paid by the employer and 6.2 percent withheld from the employees' wages. The amount of wages taxed is "capped" with the maximum amount increased each year based on a statutory formula. In 2005 the cap is $90,000.

For the City and State of New York, the employer's share of Social Security taxes is a major expense. In its fiscal year 2004, the City as employer paid to the federal government $1,262 million in Social Security taxes.[3] The comparable figure for the State in its 2004 fiscal year was $749 million. (Refer to Table 1.)

Medicare

Medicare was established in 1965 as a two-part program. Part A provides insurance coverage for inpatient hospital care. Part B provides coverage for physician services, both in and out of the hospital. Subsequent amendments established an optional mechanism for combining hospital and physician coverage in Health Maintenance Organizations (HMOs), a program that is referred to as Part C. In December 2003, Congress passed a new Part D to provide coverage for prescription drugs; this program becomes effective in 2006.

Medicare benefits require substantial deductibles and co-payments for hospital and physician services, and the volume of inpatient hospital care and nursing home care is limited. As a result of these benefit limits, Medicare covers only about 51 percent of the health care expenditures of the elderly.[4] However, this proportion will presumably increase when the new prescription drug benefit becomes effective.

In response to the limited Medicare benefits, commercial insurance companies have offered supplemental coverage, often called "Medigap" coverage. It pays for uncovered services and most co-payment and deductible requirements. In response to insurance company practices involving duplication of Medicare benefits and questionable marketing practices, the federal government instituted regulation of the Medigap policies. They must meet benefit standards with a limited set of options in order to facilitate cost comparisons and protect consumers. HMOs may also offer insurance packages that combine Part A and Part B benefits and offer supplemental benefits, provided the single combined premium meets cost criteria set by the federal government.

Medicare benefits are available to virtually all residents over age 65. There is no work history requirement. However, for Part B and Part D, a senior citizen must agree to pay a monthly premium in order to receive benefits.[5] Premiums can be deducted automatically from monthly cash Social Security benefit checks.

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[3] City of New York, Office of the City Comptroller, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004*, p. 221. This includes Medicare taxes discussed below.

[4] Craig Caplan, "What Share of Beneficiaries' Total Health Care Costs Does Medicare Pay?" Public Policy Institute, AARP, September, 2002.

[5] A premium is required for Part A for those with limited work histories. Only about 1 percent of those over age 65 are affected by this requirement.

Medicare Part A is financed through a payroll tax with no cap on taxable earnings. The rate is 2.9 percent, with half paid by the employer and half deducted from the employee's wages. The City and State shares of the Medicare payroll tax are reflected in the figures given earlier.

Medicare Part B is financed through a combination of a subsidy from federal general tax revenues and a premium paid by beneficiaries. The premium is revised annually and set to cover approximately 25 percent of the program's costs, with the federal subsidy covering about 75 percent. In 2005 the monthly premium is $78.20. Part D will follow a similar model with a federal subsidy covering 75 percent of the cost and premiums from the elderly covering 25 percent. In 2006 the Part D premium is expected to be $420 annually.

Both the City and State have opted to reimburse retired workers for their Medicare Part B premiums. In 2004 this practice cost the City about $131 million and the State about $88 million (see Table 5), and will cost each approximately $154 and $103 million, respectively, in 2005.

Retiree Health Insurance

The Medicare program provides a significant foundation for health care coverage of retirees, but it leaves two significant gaps. First, Medicare does not cover those under age 65, and many State and City workers retire before reaching age 65. Second, for those over 65, Medicare covers only a portion of health care costs, so supplemental coverage is necessary to protect against high and unpredictable medical costs.

Early Retirees

Those who retire before age 65 are sometimes referred to as "early retirees." For these individuals, both the City and State heavily subsidize the cost of private insurance, but their practices vary.

The City provides early retirees with heath insurance on the same basis as it does current employees. They are offered a choice among several comprehensive health insurance plans. The City pays the full premium cost of one of these plans, the Health Insurance Plan of New York (HIP), for the retiree and for the retiree's spouse and dependent children, if they have any. In 2004 this premium was $2,867 annually for an individual and $7,023 for a family with children. If a retiree chooses a plan that is more expensive than HIP, the retiree must pay the difference in the premium cost. The vast majority (94 percent) of retirees select HIP or a plan with equivalent costs.[6] In 2004 the City paid an estimated $420 million for health insurance for its early retirees, who numbered about 74,000. (See Table 5.)

[6] Plan enrollment provided by the New York City Office of Labor Relations, Employee Benefits Program.

Table 5
Retiree Health Insurance Benefits,
City and State of New York, 2004

	Early Retirees		Medicare Eligibles		
	Individual	**Family**	**Individual**	**Family**	**Grand Total**
Number of Retirees	**38,884**	**67,207**	**124,377**	**74,951**	**305,419**
City	23,746	50,058	78,390	43,011	195,205
State	15,138	17,149	45,987	31,940	110,214
Base Plan Premium					
City	$2,867	$7,023	$1,552	$3,104	NA
State	$4,638	$10,394	$4,638	$10,394	NA
Employer Share of Premium					
City	100%	100%	100%	100%	NA
State[a]	90 or 100%	82-86%	90 or 100%	82-86%	NA
Employer Expenses (millions)	**$131.3**	**$497.1**	**$399.4**	**$513.1**	**$1,541.0**
City	$68.1	$351.5	$170.7	$190.9	$781.0
Premiums	$68.1	$351.5	$108.1	$122.2	$649.9
Part B reimbursement	NA	NA	$62.6	$68.7	$131.4
State	$63.2	$145.6	$228.7	$322.2	$759.7
Premiums	$63.2	$145.6	$191.9	$271.2	$671.9
Part B reimbursement	NA	NA	$36.8	$51.0	$87.8

Notes: NA - not applicable.
[a] Varies with Tier.

Sources: New York City data provided by the New York City Office of Labor Relations, Employee Benefits Program.

New York State data provided by the New York State Office of Civil Service. State expenses are conservatively estimated based on the assumption that all retirees were hired after 1983, and hence contribute to individual premium costs.

Like the City, the State offers early retirees a choice of health plans similar to that offered current employees and pegs the State's contribution to the cost of a designated comprehensive policy. However, unlike the City, the State does not pay the full cost of this coverage. For those hired prior to 1983, the State pays the full premium for individual coverage, equaling $4,638 annually in 2004. For those hired after 1983, the State requires retirees to pay 10 percent of the standard premium for individual coverage (or $464 annually in 2004). The State requires early retirees with dependents to pay 25 percent of the difference in cost between an individual plan and family coverage. This amounts to a required retiree contribution of $1,440 or $1,900 annually, depending on date of hire. As shown in Table 5**,** in 2004 the State had about 32,000 early retirees and paid about $205 million to subsidize their health insurance.[7]

Medicare Supplementary Insurance

Both the City and State subsidize the cost of insurance to supplement Medicare for retirees (and workers) over age 65. As with early retirees, the City and State's practices differ.

The City offers retirees a choice of supplementary plans, and pays the full premium cost up to that of a comprehensive policy from Group Health Insurance (GHI). The City pays this cost for both the retired worker and the worker's spouse, if applicable. In 2004 the cost of coverage under this policy was $1,552 annually for an individual and $3,104 for a couple. In that year the City provided such coverage to more than 121,000 retirees at a cost of about $230 million.

The State also offers retirees a choice of supplementary plans and pegs its contribution to the cost of a comprehensive policy. However, the State does not pay that full premium cost. For retirees hired before 1983, it pays 100 percent of the cost of an individual policy and 86 percent of the cost for a couple. For those hired after that date, it pays 90 percent of the cost of an individual policy and 82 percent of the cost for a couple. In 2004 the State provided supplementary coverage to about 78,000 retirees at a cost of about $463 million.

Total Cost

It is worth highlighting the total cost to the City and State of health insurance for retirees. As shown in Table 5, the combined sum in 2004 was more than $1.5 billion**.** This includes about $219 million for reimbursement of Medicare Part B premiums, about $693 million for supplementary Medicare insurance, and more than $628 million for comprehensive insurance for early retirees.

Pension Benefits

The remaining element of retiree benefits is cash payments under employer sponsored pension programs. Both the State and City have established such pension plans, but the benefits

[7] The New York State employer expenses for health insurance premiums presented in Table 5 are conservatively estimated based on the assumption that all retirees were hired after 1983 and hence contribute to the cost of individual coverage; a breakdown of retirees by tier or year of hire is not available.

and other aspects of the plans vary between the two entities and among categories of workers at each level.

The major pension systems

The vast majority of New York City and New York State workers participate in one of eight pension systems. Five are sponsored by the City, two directly by the State, and one by a statewide consortium of independent school districts and other educational agencies. The membership and governance of each of these systems is described below, and the numbers of active and retired members are shown in Table 6.

Table 6
New York City and State Pension Plan Membership

	Retirees and beneficiaries	Active members*	Total
New York City Plans[a]			
POLICE	38,260	36,331	74,591
FIRE	17,409	10,876	28,285
TRS	58,133	102,293	160,426
BERS	10,983	21,851	32,834
NYCERS	128,025	178,026	306,051
New York State Plans[b]			
PFRS	26,829	35,566	62,395
TRS	121,246	254,515	375,761
ERS	301,528	606,155	907,683

[a] As of June 30, 2003.
[b] As of March 31, 2004.
* Terminated vested members not yet receiving benefits included.

Sources: The City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2004*; State of New York, Office of the State Comptroller, *New York State and Local Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended March 31, 2004;* New York State Teachers' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004*.

New York City Police Pension Fund (POLICE)

This fund covers full-time uniformed members of the New York City Police Department. In 2003 it had about 36,000 active members and 38,000 retired members.

The fund is governed by a 12-member board. The members consist of the City Comptroller, the Mayor, two mayoral appointees (the Police Commissioner and the Finance Commissioner), four senior officers of the Patrolmen's Benevolent Association, and the Presidents of four separate unions representing police captains, lieutenants, sergeants and detectives. The City Comptroller serves as the Fund's custodian and investment advisor.

New York City Fire Pension Fund (FIRE)

This fund covers full-time uniformed members of the New York City Fire Department. It has about 11,000 active members and 17,000 retired members.

The fund is governed by a 12-member board. The members consist of the City Comptroller, the Mayor, two mayoral appointees (the Fire Commissioner and the Finance Commissioner), four senior officers of the Uniformed Firefighters' Association, and an officer from each of four separate unions representing other groups of Fire Department employees. The City Comptroller serves as the Fund's custodian and investment advisor.

The New York State Police and Fire Retirement System (PFRS)

The PFRS serves police officers and firefighters employed by the State of New York, its authorities, and local governments across the state, except the City of New York. It has about 36,000 active members and 27,000 retirees drawn from 681 separate employers. Approximately 85 percent of the active members work for local governments; about 15 percent are State employees.[8]

The State Comptroller is the sole trustee of this fund. He manages and invests its assets.

The New York State Teachers' Retirement System (NYSTRS)

NYSTRS members include teachers, teacher assistants, guidance counselors and administrators who work for a New York State public school district (other than New York City), for BOCES, or for an eligible charter school that opts to participate. Community college and SUNY employees also may opt to join.[9] The system has about 255,000 active employees and 120,000 retirees drawn from 811 different employers. The vast majority of the members do not work directly for the State, although about 2,900 of the over 41,000 State University employees participate in the plan.[10]

A ten-member board governs the NYSTRS. It is composed of three teachers elected by the membership; one retired member, elected by retired members; two school administrators, appointed by the Commissioner of Education; two current or former school board members, appointed by the Regents on the recommendation of the New York State School Boards

[8] New York State, Office of the Comptroller, *Comprehensive Annual Financial Report for the New York State and Local Employees' Retirement Systems for the Fiscal Year Ended March 31, 2004*.
[9] Eligible community college and SUNY employees can instead elect to join ERS or TIAA/CREF, the optional retirement plan.
[10] SUNY data provided by the New York State Teachers' Retirement System.

Association; one current or former bank executive, appointed by the Regents; and the Comptroller or his or her designee.[11]

The New York City Teachers' Retirement System (NYCTRS)

This system serves teachers in New York City public schools, its charter schools and the City University of New York. It has a total membership of about 160,000, of whom about 102,000 are current employees and 58,000 are retirees.

NYCTRS is governed by a seven-member board. The members are the City Comptroller, three mayoral appointees including the Chancellor of the Department of Education and one other member of that Department, and three members elected by plan members. The City Comptroller serves as the Fund's custodian and investment advisor.

The New York City Board of Education Retirement System (BERS)

This system covers non-teachers and non-certified teachers employed by the New York City Department of Education and its charter schools and employees of the New York City School Construction Authority. It has about 22,000 active members and 11,000 retirees.

The BERS is governed by a 15-member board. It includes eight members appointed by the mayor, five members appointed by each of the borough presidents, and two members elected by plan members. The City Comptroller serves as the Fund's custodian and investment advisor.

The New York City Employees' Retirement System (NYCERS)

This system is open to City employees not covered by one of the other four New York City pension funds. In addition, NYCERS serves non-City employees from employers such as the New York City Transit Authority, The New York City Housing Authority, and The New York City Health and Hospitals Corporation.[12] The system has about 178,000 active members; of the total, about 83,000 active members were from non-City employers as of June 30, 2003.[13] NYCERS also has about 128,000 retired members.

NYCERS is governed by an 11-member board. It is chaired by a member appointed by the Mayor, includes the City Public Advocate, the City Comptroller, the five Borough Presidents, and three public employee representatives. Each member has one vote, except the Borough Presidents each have one-fifth of a vote. The City Comptroller serves as the Fund's custodian and investment advisor.

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[11] <http://www.nystrs.org/main/boardinfo.html> (accessed June 24, 2004).
[12] <http://www.comptroller.nyc.gov/bureaus/bam/nycers.shtm> (accessed March 24, 2005).
[13] <http://www.nycers.org/(jhjbju55z5zptd45ix5voyvf)/pdf/cafr/2003/schedule-of-participating.pdf> (accessed October 28, 2004).

The New York State Employees' Retirement System (ERS)

ERS membership is open to those (other than police officers, firefighters and teachers) who work for State agencies, public authorities, local governments, school districts, and libraries. Nearly 3,000 different employers participate in this system. It has about 606,000 active members and almost 302,000 retirees. Only about one-third of the active members work for State agencies; 64 percent of the active members work for other jurisdictions.[14]

The State Comptroller is the sole trustee and custodian of the ERS. The Comptroller maintains the assets of the ERS and the PFRS, and the two are jointly managed as the Common Retirement Fund.[15]

Eligibility for benefits

Pension benefits for State and local employees in New York are set by State legislation. They are legally not subject to collective bargaining and are not part of union contracts. However, the informal process sometimes involves an agreement reached by the parties during collective bargaining jointly to request benefit enhancements of the State Legislature, and such requests are typically honored. On other occasions, unions petition the State Legislature for benefits enhancements despite the opposition of New York City or other jurisdictions' elected leaders.

The New York State Constitution provides that the pension rights of public employees cannot be diminished or impaired. The courts have interpreted this to mean that an employee cannot have any form of pension benefit reduced from those in effect at the time the employee was hired. Reductions in benefits can only apply to employees hired after the change is enacted. Such reductions were enacted in 1972, 1976, and 1983. These amendments to the State Retirement and Social Security Law divide workers into four "tiers" based on their date of hire.[16] Tier 1 employees were hired before June 30, 1973; Tier 2 covers workers hired between June 30, 1973 and July 27, 1976; Tier 3 employees were hired between July 27, 1976 and September 1, 1983; and Tier 4 covers employees hired since September 1, 1983.[17] However, no Tier 3 or 4 was created for police officers or firefighters. In addition, subsequent legislation has enhanced benefits for workers in later tiers under the rhetoric of "tier equity;" most notably, many of the benefits for workers in Tiers 3 and 4 have subsequently been enhanced to resemble closely those of workers in Tier 2.

[14] Op.cit, New York State Comptroller, *CAFR, NYS and Local Employees' Retirement Systems*.
[15] The Comptroller also heads the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits, in the form of life insurance. The Common Retirement Fund and the GLIP are referred to collectively as the New York State and Local Employees' Retirement Systems or "the System." In this report, except as noted, GLIP amounts are apportioned and included in the ERS or PFRS, as is the practice of the Office of the State Comptroller.
[16] Teachers' Retirement System of the City of New York, *2002 85th Annual Report*, pp. 41-42.
[17] Center for Civic Innovation at the Manhattan Institute, "Defusing the Pension Bomb: How to Curb Public Retirement Costs in New York State." November 2003, p. 4; State of New York, Office of the State Comptroller, *New York State and Local Retirement System 2003 Annual Report Supplement*, pp. 11-12.

Eligibility for pension benefits typically has two components – age and years of service. The age is a minimum age before benefits will be paid. Years of service involves "vesting," the minimum number of years of service in order to qualify for any benefit.

For all City and State pension systems, the vesting requirement is five years of service. This standard was set by State legislation in 1998, when it was lowered from a long-standing standard of ten years. (However, the vesting requirement for health insurance benefits as a retiree remains ten years.)

Generally, the minimum age requirement in each system is 55. Workers in Tier 1 who retiree at age 55 receive full benefits. For workers in Tiers 2-4 benefits usually are substantially less for those who retire at ages between 55 and 62 than for those who wait until reaching age 62. However, workers in Tier 4 in the NYCERS and BERS systems hired after June 28, 1995 can retire at age 57 with full benefits.

The New York City POLICE and FIRE systems and the NYSPFRS contain important exceptions to the minimum age requirement. While vested members with less than 20 years of service must reach age 55 to receive benefits, those with at least 20 years of service need not meet any minimum age requirement. Since many of these workers begin service in their twenties, they typically are eligible to retire in their forties.

Another exception to the minimum age of 55 is that some members of the NYCERS serving for 25 years in positions designated as "physically taxing" can retire at age 50. About 300 of the City's approximately 1,100 job titles are designated as physically taxing for these purposes, although many of the titles have relatively few incumbents.[18] Examples of such jobs include auto mechanics, motor vehicle operators, park workers, and traffic device maintainers. A less significant exception is that some teachers with 35 years of service are not subject to any minimum age requirement.

Amount of benefits

The size of a retiree's pension check is a function primarily of their earnings near the time of retirement and their years of service. The precise way these two factors interact is affected by the workers' tier, and there may be other relevant adjustments at or after the time of retirement. Each of these elements is discussed below.

Final Average Salary

The basic pension calculation is a percentage (based on years of service) of the worker's final average salary (FAS). Thus, a critical question is how the FAS is defined; specifically how long a period is used, and what elements of compensation are included.

[18] In 2005, for the first time in more than a decade, 12 job titles were reclassified as physically taxing, adding about 500 members. See Richard Steier, "'Taxing' Status for 500 DC 37 Members," *The Chief*, May 22, 2005, p. 5.

The time period used varies by system and tier. For Tier 1 members in the five City systems and in the NYSPFRS, the amount equals the last (or highest) year's earnings. For others, the amount is the average of the three highest years' earnings.

The type of compensation included in FAS is extensive. It includes not only base salary, but also overtime, holiday and other differentials, and recurring longevity payments.[19] For teachers, it includes extra payments for summer and after-school work.

Because of the multiple items included in FAS, the amounts are higher than regular salary schedules would suggest. As shown in Table 7, in 2004 the FAS for NYSPFRS new retirees was $98,802, for NYSTRS new retirees $75,598, and for NYSERS new retirees $51,761. For NYCERS, the available equivalent data is less recent; the average FAS for new retirees in 2002 was $54,275.[20] Comparable data are not available from the New York City POLICE and FIRE funds, for which the FAS is likely to be even higher than for the NYSPFRS.

Years of Service

Generally, once an employee is vested, each additional year of service adds to the value of the pension. However, all years are not valued equally. Years from the minimum five to 20 generally add less than do years between 20 and 30. The logic is to encourage workers to stay at least 20 years, but not to work much beyond 30 years. In some cases, years after 30 may be less valuable than the previous ones, and there may be no additional benefit for work beyond 40 years.

The precise calculations vary among tiers and systems, but the general pattern can be illustrated with an example. Consider a Tier 3 member of the NYSERS retiring at age 62. If the person had less than 20 years service, each year is worth 1.67 percent of FAS. Thus, 15 years of service would yield a pension equal to 25.05 percent of FAS. If the person had between 20 and 30 years of service, each year is worth 2 percent of FAS. Thus, if the person had 20 years, the pension would be 40 percent of FAS; if they had 30 years, it would be 60 percent. Each year beyond 30 is worth 1.5 percent, so retiring with 40 years would yield a pension of 75 percent of FAS.

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[19] State of New York, Office of the State Comptroller, *Final Average Salary*, <http://www.osc.state.ny.us/retire/members/FAS.htm>, (accessed April 30, 2004); New York State Teachers' Retirement System, *2003 Comprehensive Annual Financial Report*, p. 16.

[20] The Final Average Salaries (FAS) for the State ERS and PFRS and the City ERS systems are calculated by dividing the average pension amount by the percentage of FAS for those who retired in the past year. The FAS amounts for the State TRS are included in their 2004 *Comprehensive Annual Financial Report*.

Table 7
Final Average Salaries and Average Benefit Amounts for New Retirements, 2004

	Average FAS	Percent of FAS	Benefit Amount	Number of Retirees
NYSERS				
New service retirements	$51,761	49%	$25,363	22,700
New ordinary disability retirements	$41,709	35%	$14,598	873
New accidental disability retirements	$47,755	71%	$33,906	19
NYSPFRS				
New service retirements	$98,802	60%	$59,281	955
New ordinary disability retirements	$61,102	42%	$25,663	9
New accidental disability retirements	$81,568	73%	$59,545	96
NYSTRS				
New service retirements	$75,598	59%	$47,520	6,725
New disability retirements *	$59,785	37%	$22,685	122
**NYCERS ** **				
New service retirements	$54,275	57%	$30,937	7,670

* Includes ordinary and accidental disability
** For Fiscal Year 2002

Source: New York State ERS & New York State PFRS from *New York State and Local Retirement System Comprehensive Annual Financial Report for Fiscal Year ending March 31, 2004,* pp.98-99; New York State TRS from *New York State Teachers' Retirement Pension System Comprehensive Annual Financial Report for Fiscal Year ending June 30, 2004,* p. 78; NYCERS from *New York City Employee Retirement System Comprehensive Annual Financial Report for Fiscal Year ending June 30. 2003,* p. 177.

The same general pattern prevails in other tiers and systems, except Tier 1 members are eligible for full pensions at age 55 rather than 62 and some Tier 1 members have each year of service yield a higher percentage of FAS than is the case for the other tiers. However, police officers and firefighters are eligible to retire with 20 years of service with no age restriction, and those years of service are each worth 2.5 percent of FAS. Thus, a police officer or firefighter receives 50 percent of FAS with 20 years of service; each subsequent year of service raises the percent of FAS by 1.67 percentage points, so a uniformed retiree with 30 years of service receives two-thirds of his FAS.

Cost of Living Adjustments

Historically, pension amounts were not adjusted after a public employee retired; they were truly "fixed" incomes. However, in the context of a booming stock market and relatively flush pension fund balances in the late 1990s, the Governor appointed a Commission to explore the feasibility and desirability of cost of living adjustments for public employee pensions. The Commission recommended such adjustments, and State legislation authorized the changes in 2000.

Adjustments are made annually based on the March-to-March change in the Bureau of Labor Statistics cost-of-living index, and the increase is reflected in the retirees' checks beginning in September. The percentage increase is limited to one-half the increase in the index, but is a minimum of 1 percent and is capped at 3 percent. The increase applies only to the first $18,000 of benefits. To be eligible for an adjustment, the beneficiary must be at least age 62 and retired for five years, or at least age 55 and retired for ten years.

Disability Adjustment

An interesting, if not unique, feature of New York's pension systems is that they include disability and retirement benefits. Workers can qualify for a disability pension if they become disabled either through conditions at work (historically, this was usually an on-the-job accident), or due to conditions outside of work (an unrelated accident or illness). Such benefits for workers who do not otherwise qualify for a retirement pension are outside the scope of this report, but the amounts of these disability benefits vary depending on whether or not it is work related as well as on FAS, years of service and other factors. However, for most workers suffering from a job-related disability, the pension benefit is from 70 to 75 percent of FAS.

More relevant to this report are disability adjustments to the benefits of workers who otherwise also qualify for a retirement pension. Since few workers retire with sufficient years of service to have their benefits be as much as 75 percent of FAS, the benefits will be higher if they can establish they suffer from a job related disability. While it may seem incredible for a worker to suddenly claim a disability at the end of a 20- or 30-year career, State legislation has made this claim increasingly feasible both at the time of retirement and retroactively for those previously retired.

The device for expanding access to disability pensions is to define legislatively certain diseases and conditions as job related. The first major initiative of this type was the "Heart Bill" passed in 1969, which defined for police officers and firefighters most forms of heart disease as caused by job stress. The benefit was extended to correction officers in 1998 and sanitation workers in 2004.

In 1994 legislation defined mouth and throat cancer, intestinal cancers, prostate cancer, lung and lymphatic cancer and leukemia as "accidental" (that is, job related) disabilities for firefighters. Legislation passed in 2002 and retroactive to 1999 added neurological, breast, and reproductive cancers as job related for State firefighters.

In 1998 legislation extended disability benefits for Emergency Medical Technicians. Workers who suffer from HIV, tuberculosis, or hepatitis are presumed to have contracted the disease while performing their duties.[21]

As a result of these extensions of the definition of accidental disabilities, the number of workers who obtain the higher disability pension has been increasing, especially for New York City uniformed workers. Data are not available from the POLICE and FIRE funds on the percent

[21] <http://www.nycers.org/(sz0b2wqzuanoko45zxtjf455)/legislation/Summary2004.aspx#chapter697> (accessed March 11, 2005).

of new retirees in recent years classified as having a work related disability. However, data as of 2002 indicate that among all the FIRE members receiving retirement benefits, fully 43 percent were classified as having a job-related disability.[22] The comparable figure for POLICE retirees was 28 percent.[23] In contrast, among NYSPFRS members who retired in 2004, a lower 13 percent had a job-related disability.[24] The job-related disability rate among New York City police and fire retirees contrasts even more starkly with the comparable figures of less than 2 percent among the State and City teachers' retirement systems,[25] less than 3 percent among NYCERS retirees,[26] and less than 1 percent among NYSERS new retirees in 2004.[27]

Other Supplements

Some groups of New York City workers are eligible for supplements to their regular retirement pensions. These enhancements, known as "variable supplements," are paid annually, usually in December (hence, they also are informally known as retirees' "Christmas bonus"). Because these payments are sums that vary annually based on State legislation (and because of their special financing arrangements), these supplements are not constitutionally protected as irrevocable pension rights. The amount, if any, in a given year is subject to legislative change.

The practice of granting annual supplements began with New York City police officers and firefighters in 1968. It was extended in 1987 to then-separate Transit Authority and Housing Authority police officers, and in 1999 to New York City correction officers. State and other local government employees in comparable job titles do not receive these supplements.

Initially, the amount of the supplement was determined annually and was based largely on the earnings generated by the investments of the relevant pension funds. The origin was that union representatives on the pension fund boards insisted that growing returns from equity investments should be shared with the retirees rather than exclusively benefit the City through lower employer contributions. Legislation passed in 1987 set a future 20-year schedule for the payments, increasing them $500 annually from $2,500 in 1988 to $12,000 in 2007. The payment made in 2004 was $10,500.

Financing of benefits

Pension plans can be of two basic types – defined benefit plans and defined contribution plans. Defined benefit pension plans promise a specified payout, determined by a formula

22 New York City Fire Pension Fund, *Comprehensive Annual Financial Report: A Pension Trust Fund of the City of New York for the Fiscal Year Ended June 30, 2003*.

23 New York City Police Pension Fund, *Comprehensive Annual Financial Report: A Pension Trust Fund of the City of New York for the Fiscal Year Ended June 30, 2003.*

24 Op. cit, New York State Comptroller, *Comprehensive Annual Financial Report*, New York State and Local Employees' Retirement Systems.

25 New York City Teachers' Retirement System, *Annual Report for Fiscal Year Ended June 30, 2003,* New York State Teachers' Retirement System, *Annual Report for the Fiscal Year Ended June 30, 2004.*

26 New York City Employees' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004.*

27 New York State and Local Employees' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004.*

usually combining length of service and average salary. Defined contribution plans do not specify a benefit; the employee, employer, or both make contributions to an account during the duration of employment, and it becomes available to the worker at the time of retirement.

The City and State pension programs are defined benefit plans.[28] In order for them to be financially viable, they must have assets sufficient to pay for the benefits promised to current workers and retirees. These promised benefits are the plans' liabilities, and sound financial planning requires that these liabilities be "fully funded" in the sense that the plans' assets equal its liabilities. Unfunded liabilities are a risk to future benefits, and plan managers usually seek to avoid or minimize unfunded liabilities.

The funds' assets come from three sources – employee contributions, employers' contributions, and investment income. The amounts of these sources for each of the major funds during the 1998-2004 period are summarized in Table 8**.**

Employee Contributions

Required employee contributions are determined by State law. For the three State systems, most members of Tier 1 and Tier 2 are not required to make any contribution. Members of Tiers 3 and 4 are generally required to contribute 3 percent of salary for the first ten years of service, and then have no required contribution.

For the City systems, the requirements also vary by tier. Members of Tiers 1 and 2 (which includes all police and firefighters) must contribute a percent of salary that varies depending on their age at hire and the arrangement they choose, but it typically is greater than 3 percent. However, the required employee contribution for Tier 1 and 2 members can be reduced through the Increased-Take-Home-Pay (ITHP) program, initially authorized in 1960. This program offered employees a choice of either having the City make a portion (usually 2.5 percent of salary) of the employee's required contribution (thereby increasing take-home pay) or having the City make an equivalent contribution to a separate tax deferred annuity account for the employee. Under the latter option, take-home pay remains lower but the member's retirement annuity will be greater.[29] In 2000 State legislation increased the ITHP benefit from 2.5 percent to 5 percent of salary.

For City employees in Tiers 3 and 4, the employee contribution was set at 3 percent for the first ten years and nothing thereafter. However, a liberalization in benefits for NYCERS and BERS members hired after June 28, 1995 simultaneously lowered the full benefit retirement age from 62 to 57 and required an additional 1.85 percent contribution. The additional 1.85 percent brings the total contribution rate to 4.85 percent during the first ten years and remains at 1.85 percent thereafter.

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[28] Workers also have available federal tax-deferred retirement benefit plans. These are voluntary and entirely funded from workers' wages. They are governed by federal law and are not treated as part of the City and State pension systems in this report.

[29] New York City Employees' Retirement System, *Tier 1 Summary Plan Description*, pp. 22-23 and p. 26, <http://www.nycbers.org/>.

Investment Income

Pension funds accumulate assets, and these assets are invested. The income from these investments can enhance the asset base and improve the funds' financial health. Of course, investment losses can have the opposite effect.

The investment policies of each system are set by their boards. As described earlier, each of the City funds has a board composed of management and member representatives, with the City Comptroller on each board and serving as a financial advisor. The NYSTRS has a similar joint board, but the State Comptroller is the sole manager of the assets of the NYSPFRS and the NYSERS.

The investment income of the funds generally tracks with overall stock market performance. As shown in Table 8, the funds enjoyed large returns in the late 1990s, suffered losses after the bubble burst in 2000, and have had gains again in the most recent years. The performance of individual funds varies based primarily on the boards' policies relating to asset allocation among equities, fixed income, real estate and other choices. The NYSTRS had annual average returns of 10.5 percent, and the other State retirement funds had average annual returns of 11.97 percent for the long-term.[30] The New York City plans in aggregate had average annual returns of 9.9 percent over the ten years.[31] Conventional equity-oriented benchmarks are the Dow Jones Industrial Average and S&P 500, which had annual average returns of 13.4 and 11.8 percent, respectively, over the past ten years.[32] However, this is not the most appropriate comparison, because the pension funds are more diversified. The largest public employees' retiree fund, CalPERS, had an annual average return over ten years of 9.7 percent.[33]

Employer Contributions

As employers, the State and City (and ultimately their taxpayers) are the guarantors of the financial viability of the pension systems. Employee contributions are fixed by law and are relatively modest; investment income fluctuates with market conditions and board investment policies. Hence, it falls on the City and State to provide annual contributions that establish the financial viability of the pension funds.

The amount of employer contributions is, in essence, the difference between what is needed to fund future liabilities, and what is provided by the sum of investment income and employee contributions. Since employee contributions are set by law and relatively predictable, the key remaining factors are investment performance and future liabilities.

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[30] NYSTRS annual fund returns op. cit., *New York State Teachers Retirement System Annual Report, 2004*. All other State retirement fund returns from State of New York, Office of the State Comptroller, *New York State and Local Retirement System 2004 Comprehensive Annual Financial Report.*
[31] The City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year ended June 30, 2004*, p. xix.
[32] Dow Jones Average returns from Dow Jones website: <http://djindexes.com/mdsidx/downloads>. S&P 500 average returns from the *New York State Teachers Retirement System Annual Report, 2004.*
[33] California Public Employees' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004*.

Table 8
Sources of Pension Fund Income, Fiscal Years 1998-2004
(dollars in millions)

	1998	1999	2000	2001	2002	2003	2004
NYSERS							
Employer contributions	$280.1	$193.2	$83.0	$131.0	$179.1	$525.5	$1,052.3
Member contributions	$368.8	398.7	$422.0	$317.4	$206.0	$214.1	$217.3
Net investment income	$20,979.9	$7,776.5	$16,263.9	($9,424.4)	$2,307.8	($9,504.8)	$23,154.3
NYSPFRS							
Employer contributions	$125.1	$50.1	$62.0	$49.0	$47.3	$66.3	$158.4
Member contributions	$0.6	$1.1	$0.7	$1.7	$4.2	$5.1	$4.5
Net investment income	$3,915.5	$1,448.2	$3,013.0	($1,746.4)	$423.2	($1,731.0)	$4,180.5
NYSTRS							
Employer contributions	$209.2	$230.9	$211.5	$152.7	$51.9	$220.1	$306.8
Member contributions	$162.3	$171.9	$186.8	$128.0	$137.9	$147.0	$155.9
Net investment income	$13,534.1	$10,437.2	$5,840.7	($4,946.2)	($5,570.9)	$2,640.6	$11,360.1
NYCERS							
Employer contributions	$211.1	$145.7	$68.6	$100.0	$105.7	$108.0	$310.6
Member contributions	$263.2	$306.0	$316.4	$324.2	$230.4	$309.8	$298.3
Net investment income	$6,763.6	$4,950.2	$3,743.9	($3,530.3)	($3,046.2)	$1,119.6	$4,799.4
NYCTRS							
Employer contributions	$439.9	$454.0	$202.8	$466.3	$531.9	$660.9	$940.6
Member contributions	$76.6	$99.3	$118.2	$129.8	$107.1	$81.9	$97.9
Net investment income	$5,648.6	$4,505.5	$3,704.2	($3,805.1)	($361.7)	$801.1	$4,810.0
NYCBERS							
Employer contributions	$34.4	$43.8	$9.5	$39.3	$56.5	$70.2	$84.1
Member contributions	$19.6	$20.4	$22.1	$16.4	$24.1	$32.3	$31.3
Net investment income	$256.6	$226.0	$157.0	($161.3)	($93.6)	$17.0	$223.9
NYC Police							
Employer contributions	$531.7	$486.8	$250.0	$413.2	$534.5	$625.4	$812.0
Member contributions	$36.9	$43.1	$40.8	$37.9	$127.0	$110.8	$118.6
Net investment income	$2,623.1	$1,868.7	$1,537.8	($1,474.0)	($1,422.0)	$356.0	$2,329.0
NYC Fire							
Employer contributions	$258.4	$251.7	$193.2	$259.4	$302.3	$317.0	$392.7
Member contributions	$23.2	$26.0	$28.5	$28.5	$33.7	$42.3	$42.5
Net investment income	$915.0	$26.2	$508.3	($465.5)	($641.1)	$292.2	$772.3

Sources: State of New York, Office of the State Comptroller, *New York State and Local Retirement System Comprehensive Annual Financial Report for the Fiscal Year ended March 31, 2004, pp. 89, 116, 118;* New York State Teachers' Retirement System, *2004 Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2004*, p. 84; City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller Fiscal Years 1998 - 2004*, Part II-C, Schedule F5.

For purposes of determining the employer contribution, each system sets an assumed average annual rate of return on its investments. Based primarily on past experience, this rate currently is 8 percent. Each year the actual performance is compared to this assumed average rate. If the actual return is greater than assumed, then the employer's contribution may be lowered; if the actual rate is less than assumed, then the employer's contribution will be increased. These adjustments are usually made based on rolling multiyear averages, and the changes in required employer contributions also are spread over multi-year periods. The length of time that the State or City can take to make up for shortfalls in market performance is regulated by State legislation.

The remaining factor driving the State and City's required contributions is the estimate of future liabilities. This is determined by the benefit levels set in State law and a set of assumptions about multiple factors including future average wages, future life spans of retirees, the age at which workers opt to retire, and the share of retirees with disabilities. State law determines some of the methods to be used in making these assumptions, but the fund boards (or State Comptroller) generally make the decision based on the recommendations of a professional actuary. The assumptions are updated periodically, and these updates generally cause a change in the required employer contribution.

As shown in Table 8**,** required employer contributions dropped significantly in the late 1990s and were at relatively low levels in 2000. This was due primarily to the high rates of return on investments during this stock market boom. In the more recent years required employer contributions have risen sharply in order to make up for investment losses and recognize the future costs of benefit enhancements including the COLAs authorized in 2000. The increases would have been even sharper if State legislation had not permitted an extension in the time period over which the State and City could offset these losses and new costs. However, in 2003, when the time period was extended, the State also created for its funds a minimum annual contribution in future years of at least 4.5 percent of payroll, regardless of the return on investment.

COMPARATIVE ANALYSIS OF RETIREMENT BENEFITS

A key criterion for assessing New York State and City retirement benefits is how they compare to those of other large employers. The State and City should provide benefits that are competitive, in order to attract qualified workers, but they should not spend more than is necessary to secure a competent workforce. The relevant comparisons are with the federal government, other state and local governments in the United States, and large private employers. This section presents such comparisons for retiree health insurance and pension benefits.

Health Insurance Benefits for Retirees

As described previously, New York City and New York State provide health insurance benefits for retirees and their dependents, but the arrangements vary between the two governments. For City retirees, the City pays the full premium cost of insurance policies that are comparable to those provided full-time workers. Coverage is paid for both the retiree and dependents, with the City's cost set at the premium required for a comprehensive policy from a standard HMO (HIP for those under age 65, and GHI for those 65 and over). In addition, the City pays the full cost of Medicare Part B premiums for retirees age 65 or older.

For State retirees, the State's contribution varies depending on the time of hire. For workers hired before 1983, the State pays 100 percent of the premium cost of a comprehensive insurance policy for individuals and 86 percent of the cost for a family. For workers hired after 1982, the State pays 90 percent of the cost of an individual policy and 82 percent of the cost of a family policy. However, upon retirement, State employees receive a credit equal to half the value of their unused sick leave that is applied toward the retiree's share of the premium costs. For many retirees this significantly reduces or eliminates the required premium contribution. In addition, for all retirees age 65 or over, the State pays the full cost of Medicare Part B premiums.

Federal benefits

The nation's largest provider of employer-sponsored health benefits is the Federal Employee Health Benefits Program (FEHBP). For its retirees, the federal plan pays 75 percent of the premium cost of a competitively priced comprehensive policy for individuals and families. The FEHBP offers insurance plans that are more costly than the competitively priced ones, but it requires the retiree to pay the portion of the premium that exceeds the competitive price. As a result, the average share of premium costs actually paid by the FEHBP is 72 percent.[34] For retirees age 65 or older, unlike the State and City, the federal government does not reimburse retirees for their portion of Medicare Part B premiums.

[34] Data in this paragraph from the Federal Office of Personnel Management: <http://www.opm.gov/retire/html.faqs>.

Other State plans

Data are not available about the retiree health insurance benefits provided by all local governments, but three recent surveys cover the practices of state governments. A 2002 Kaiser Foundation study included information from 44 states, a 2003 study by the Segal Company included 26 states, and a 2004 study by the AARP covered all 50 states. Because the AARP study is the most recent and has the broadest coverage, its findings are the most relevant. [35]

While all states make health insurance available to retirees, there is great variability in the portion of the premium that retirees are required to pay. (See Table 9.) In 12 states, early retirees are responsible for the full premium, and Medicare-eligible retirees pay the full premium in 11 states; Indiana and Nebraska do not provide benefits to Medicare-eligible retirees.[36] Only 16 states pay the full premium cost for early retirees, and 17 states pay the full cost for retirees eligible for Medicare.

Table 9
Percentage of Retiree Health Insurance Premium Paid by Employer, State Governments, 2003 (Number of States)

	EARLY RETIREES	MEDICARE RETIREES
Retiree Pays 100%	12	11
Retiree Pays 1-99%	22	20
Retiree Pays 0%	16	17
Total	**50**	**48**

Sources: Stan Wisniewski and Lorel Wisniewski, "State Government Retiree Health Benefits: Current Status and Potential Impact of New Accounting Standards," Public Policy Institute, AARP, July 2004. <http://www.aarp.org/ppi>.

The AARP study does not have data on whether a state pays Medicare Part B premiums for retirees, but this information is available in the Kaiser survey. It shows that New York is among only five states (California is a sixth, but it covers only some groups of retirees) that reimburses retirees for some portion of their Medicare Part B premiums.[37]

Private sector benefits

In general, private sector employers are less likely to offer retirees health benefits than are public sector employers. Among all private establishments in the country, only 12 percent offered health benefits to retirees under age 65 in 2000, and only 11 percent offered them to Medicare-eligible retirees. The likelihood of receiving employer-sponsored retirement health

[35] Data are from Stan Wisniewski and Lorel Wisniewski, "State Government Retiree Health Benefits: Current Status and Potential Impact of New Accounting Standards," Public Policy Institute, AARP, July 2004. <http://www.aarp.org/ppi>.
[36] Ibid.
[37] Jack Hoadley, *How States Are Responding to the Challenge of Financing Health Care for Retirees*, The Henry J. Kaiser Family Foundation, Menlo Park, California, September 2003. <http://www.kff.org>.

benefits is closely tied to the size of the employer; 29 percent of firms with 500 or more employees provide health benefits to retirees under age 65 compared to 72 percent of firms with at least 1,000 employees.[38]

Even large private sector employers have recently reduced their support of retiree health benefits due to escalating costs and the Financial Accounting Standards Board rules adopted in the early 1990s requiring firms to account for their future retiree health obligations. Among private sector firms with more than 200 workers, only 38 percent offered retiree health benefits in 2003, down from 66 percent in 1988.[39] In addition, nearly half of large firms have placed caps on future retiree obligations for health care, and among these firms, nearly half have already reached the cap.[40]

New York City and State are most comparable in size to the largest of private sector employers; therefore, the Kaiser Family Foundation annual survey of private-sector employers with 1,000 or more employees is a suitable gauge of benefit comparability. (See Table 10.)

Table 10
Average Amount and Percentage of Retiree Health Insurance Premium Paid by Large Private Employers, 2004

	RETIREES	
Contribution Distribution	**EARLY**	**MEDICARE**
Retiree Pays 100 Percent	21%	19%
Retiree Pays 41-99 Percent	24%	28%
Retiree Pays 1-40 Percent	50%	45%
Retiree Pays No Percent	6%	11%

	EARLY RETIREES		MEDICARE RETIREES	
Average Individual Premium Contribution	**Dollars**	**Percent**	**Dollars**	**Percent**
Employer	$3,600	61.6%	$1,932	61.5%
Retiree	$2,244	38.4%	$1,212	38.5%
Total	**$5,844**	**100.0%**	**$3,144**	**100.0%**
Average Retiree + Spouse Premium				
Employer	$8,844	65.6%	$4,692	65.2%
Retiree	$4,644	34.4%	$2,508	34.8%
Total	**$13,488**	**100.0%**	**$7,200**	**100.0%**

Source: *Current Trends and Future Outlook for Retiree Health Benefits: Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits* , The Henry J. Kaiser Family Foundation, December 2004. <http://www.kff.org/medicare/7194/index.cfm> (accessed April 15, 2005).
Note: Numbers may not add to 100%.

[38] Paul Fronstin and Dallas Salisbury, *Retiree Health Benefits: Savings Needed to Fund Health Care in Retirement*, Employee Benefit Research Institute, EBRI Issue Brief Number 254, February 2003. <http://www.ebri.org>.
[39] Patricia Neuman, *The State of Retiree Health Benefits: Historical Trends and Future Uncertainties*, testimony before the Special Committee on Aging, United States Senate, May 17th, 2004, <http://www.kff.org/medicare>.
[40] Ibid.

This survey shows that health benefits for New York City and State retirees are significantly more generous than benefits provided to retirees of large private firms. Among large private firms, only 6 percent pay the full cost for early retirees and 11 percent for Medicare-eligible retirees. More than one-fifth of large private employers make no contribution toward retiree health insurance premiums.

Paying for Medicare Part B premiums is also a rare practice among large private employers. This data is not contained in the Kaiser survey, but a Hewitt Associates survey of large private employers shows that only 9 percent paid any part of Medicare Part B premiums for retirees; fully 91 percent made no such payment.[41]

Comparative Pension Provisions

The City and State, like most public sector employers, maintain defined benefit plans, while most private sector employers maintain defined contribution plans. As shown in Table 11, the Bureau of Labor Statistics (BLS) provides data on participation in retirement plans as well as benefit requirements for employees of private establishments. About one in four of private sector workers participate in a defined benefit plan, while nearly half participate in a defined contribution plan.

The BLS survey shows retirement requirements for the three most common types of defined contribution plans: 401(k) salary reduction; savings and thrift; and deferred profit sharing. For private sector workers participating in these types of plans, 46 percent participate in 401(k), 40 percent in savings and thrifts, and 14 percent in profit sharing.

About one-third of employees have immediate vesting in 401(k) plans, about one-third have graduated vesting with five or more years of service, and 27 percent have cliff vesting, usually with five or more years of service. All participants in these plans are allowed to contribute pre-tax dollars, and 86 percent are allowed a choice of investments for employee contributions while 65 percent are allowed a choice for employer contributions.[42]

It is more appropriate to compare New York's systems to other state and local defined benefit plans. When comparing New York pension systems to those of other public employers, the City and State programs are uniquely generous in three areas– required employee contributions, final average salary formulas, and disability benefits. Age and service requirements are more comparable to other state and local systems, but have lower age requirements than the federal Social Security system.

[41] Hewitt Associates, *Salaried Employee Benefits Provided by Major U.S. Employers in 1991*, p. 58.
[42] U.S. Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments, 1997*, September 1999. <http://www.bls.gov.ncs/ebs>.

Table 11
Percent of State and Local Government and
Private Sector Full-Time Employees Participating in Pension Plans

	State and Local Employees (a)	Private Employees (b)
Defined Benefit Plan (c) (d)	**88**	**24**
Northeast	93	
New England		15
Middle Atlantic		30
South	87	
South Atlantic		16
East South Central		14
West South Central		18
North Central	90	
East North Central		23
West North Central		21
West	95	
Mountain		10
Pacific		20
Defined Contribution Plan (c) (d)	**16**	**48**
Northeast	13	
New England		37
Middle Atlantic		43
South	19	
South Atlantic		40
East South Central		46
West South Central		35
North Central	9	
East North Central		46
West North Central		37
West	9	
Mountain		34
Pacific		37

Sources: State and local government data from United States Government, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1998,* December 2000. Private Sector data from U.S. Department of Labor, BLS, *National Compensation Survey: Employee Benefits in Private Industry,* March 2003, April, 2004. <http://www.bls.gov.ncs/ebs>.

Notes: (a) Data are for 1998. (b) Data are for March 2003. (c) Employees may belong to more than one plan. (d) National totals for DB and DC plans are for State employees only.

Employee contribution requirements

New York City workers in Tiers 1 and 2 are supposed to contribute from 4 to 8 percent of their salary to their pension plan; those in Tiers 3 and many in Tier 4 contribute 3 percent for ten years only; the most recent Tier 4 hires pay 4.85 percent for ten years and 1.85 percent thereafter. However, the City's ITHP program effectively reduces employee contributions for those in the early tiers. On average, New York City TRS members contributed between 2.0 and 2.6 percent of earnings between 1989 and 1999 depending on age and service, while NYCBERS members contributed between 2.0 and 3.9 percent over the same period. New York City POLICE members contributed between 3.4 and 4.0 percent of earnings during 1989-99, although the ITHP program effectively reduces this contribution to less than 2.0 percent. Likewise, contributions by City FIRE employees ranged from 2.6 to 4.7 percent of earnings during this period, but the ITHP reduces this contribution to below 2.0 percent. NYCERS members contributed between 3.0 and 5.8 percent of earnings during the period from 1989-99.[43]

New York State is even more generous in this regard than New York City. PFRS members and all others in Tiers 1 and 2 are not required to make pension contributions. State workers in Tiers 3 and 4 are required to contribute 3 percent for their first ten years of employment. State teachers contributed between 1.0 and 1.8 percent on average during the 1989-99 period, and civilian retirees in Tiers 3 and 4 contributed between 1.7 and 2.4 percent of earnings over the period.[44]

The BLS reports contribution requirements for those participating in state and local government defined benefit plans. Fully 78 percent of state and local employees are required to contribute to their defined benefit plan, and most of these employees are required to contribute a flat percent of earnings. Fully 74 percent of these employees contribute over 3 percent of earnings toward their defined benefit plan. (See Table 12.)

Table 12
Employee Contribution Requirements for Defined Benefit Plans
Full-time Employees of State and Local Governments, 1998

	State/Local Percent of Employees
Employee contribution required	78%
No employee contribution required	22%
Amount of required contribution	
Flat percent of earnings	91%
1-3 percent of earnings	17%
3.01-5 percent of earnings	21%
5.01-6 percent	14%
6.01-7.99 percent	21%
8 or more percent	18%

Source: United States Government, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments , 1998* , December 2000.

The BLS does not report on individual state programs, but a Government Accounting Office report provides data to permit comparison of New York's pension system to those of the largest states in the nation in terms of population (California, Florida, Georgia, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas) and two geographic neighbors of New York (Connecticut and Massachusetts). These are the major states with which New York

[43] The Governor's Task Force on Public Employee Pension Systems, *Report of the Actuarial Subcommittee*, March 30, 2000.
[44] Ibid.

competes for business. Of these 11 competitor states, eight require employees to contribute to pension benefits and six of these require contributions greater than required in New York, ranging from 4 to 9 percent. (See Table 13.)

Except for Michigan, all the competitor states offer employees a defined benefit plan. Michigan ended its defined benefit plan; all employees hired after March 31, 1997 are only offered a defined contribution plan.[45] Florida began offering employees a choice between the existing defined benefit plan and a new optional defined contribution plan in 2002.[46] In California, Governor Arnold Schwarzenegger is revising a ballot initiative to change the State pension system to a defined contribution plan for all employees hired after July 2007.[47]

Final average salary (FAS) formulas

The New York City and State pension plans define FAS as the final year's earnings for uniformed and Tier 1 members in New York City and State. For all other workers, it is the annual average earnings during the last three years of work. In all cases, the FAS includes overtime earnings during the relevant year or years.

Table 14 summarizes the latest (1998) data available on the FAS used nationally by state and local pension systems. Fully 94 percent of these employees have only straight-time earnings, rather than overtime, included in their FAS. Only 6 percent of these employees have a formula that uses one year of earnings. Fully 62 percent have formulas based on three years of service, while another 19 percent have a formula based on five years.

For the competitor states, eight have an FAS formula based on three or more years of earnings. Only California has a formula based on one year of earnings. (Refer to Table 13.)

Disability benefits

If a worker becomes accidentally disabled prior to otherwise becoming eligible for retirement benefits, the State and City pension plans permit the worker to receive benefits without meeting the age and service requirements. The disability pension benefit usually equals what the regular retirement benefit would have been based on the workers FAS. However, for State and City police and fire employees, the disability benefit is greater than the regular retirement benefit. For example, at 20 years of service the disability benefit is 75 percent of FAS, versus a regular retirement benefit of 50 percent of FAS.

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[45] <http://www.michigan.gov/org>.
[46] <http://www.frs.state.fl.us>.
[47] See Catherine Saillant, "State Workers Wary of Pension Idea," *Los Angeles Times*, January 23, 2005. <http://www.latimes.com>; and Ginger Adams Otis, "California Governor Shelves His Pension Change," *The Chief*, April 22, 2005, p. 1.

Table 13
Comparison of Federal and State Pension Systems
(New York and 11 Competitor States)

	Design		Eligibility				Benefits		Contributions	
State	DB Plan	DC Plan With Employer Contribution	Years to Vested DB	Years to Vested DC	Age and Service Years for Unreduced Benefits	FAS Calculation	Annual Benefit Formula (% X FAS X Years of Service)	Maximum Benefit	Members Contribute	Member Contribution Rate
New York (b)	Yes	No	5	N/A	Age 55/30 years; Age 62/10 years	Highest 3 Years	1.67% (a)	No	Yes	3.00%
California	Yes	No	10	N/A	Age 65 / 10 years	Highest 1 Year	1.25%	No	No	N/A
Connecticut	Yes	No	5	N/A	Age 60 / 25 years	Highest 3 Years	1.33% (a)	No	Yes	2.00%
Florida (b)	Yes	Yes	10	6	Any age / 30 years; Age 62 / 10 years	Highest 5 Years	1.60% (a)	100% FAS	No	N/A
Georgia	Yes	No	10	N/A	Any age / 30 years; Age 60 / 10 years	Highest 2 Years	1.70%	90% FAS	Yes	1.50%
Illinois	Yes	No	8	N/A	Any age / 35 years; Age 60 / 8 years	Highest 4 of 10 Years	1.67%	75% FAS	Yes	4.00%
Massachusetts	Yes	No	10	N/A	Any age / 20 years; Age 55 / 10 years	Highest 3 Years	2.5% (a)	80% FAS	Yes	9.00%
Michigan	No	Yes	N/A	4	Age 55 / 4 years	N/A	N/A	No	No	N/A
New Jersey	Yes	No	10	N/A	Age 60 / Any years	Highest 3 Years	1.67%	No	Yes	5.00%
Ohio	Yes	No	5	N/A	Any age / 30 years; Age 65 / 5 years	Highest 3 Years	2.1% (a)	100% FAS	Yes	8.50%
Pennsylvania	Yes	No	10	N/A	Any age / 35 years; Age 60 / 3 years	Highest 3 Years	2.00%	100% FAS	Yes	5.00%
Texas (c)	Yes	No	5	N/A	Rule of 80; Age 60 / 10 years	Highest 3 Years	2.25%	100% FAS	Yes	6.00%
Federal										
CSRS	Yes	No	5	N/A	Age 55 / 30 years	Highest 3 Years	1.5% (a)	80% FAS	Yes	7.00%
FERS	Yes	Yes	5	0	Ages 55-57 / 30 years	Highest 3 Years	1.00%	No	Yes	7.00%

Sources: United States General Accounting Office, *State Pension Plans: Similarities and Differences Between Federal and State Designs* , GAO/GGD-99-45, March 19, 1999.
Florida updated with data from the State of Florida Retirement System website: <www.frs.state.fl.us>.
Notes: (a) These states have benefit formulas that increase beyond percent shown for service of 30 or more years or age greater than 65. For CSRS, benefits increase for service years greater than five and ten.
(b) Data for Florida updated from GAO report to reflect a change to a DC plan for new employees, and updated for New York to show a reduction in years to vested for DB plan from 10 to 5 years.
(c) Rule of 80 (any combination of age and years of service that add to 80).

Table 14
Final Average Salary (FAS) Formula Rules for
Full-time Employees of State and Local Governments, 1998

	Percent of Employees
Formula based on 3 years of service	**62%**
High of 3 years	24%
High of career over 3 years	21%
High of 3 consecutive years	37%
High of career over 3 consecutive years	33%
Formula based on 5 years of service	**19%**
High of 5 years	13%
High of career over 5 years	13%
High of 5 consecutive years	6%
High of career over 5 consecutive years	4%
Formula based on 1 year of service	**6%**
Other period	**13%**
Percent with straight-time earnings only in formula	**94%**
Percent with straight-time earnings plus overtime in formula	**6%**

Sources: United States Government, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1998* , December 2000.

The practice of giving enhanced disability benefits is unusual. According to the BLS, about 85 percent of state and local employees are eligible for disability retirement, regardless of age. Unlike disabled police and fire officers in New York City and State, however, most disabled public sector retirees do not receive benefits greater than what they would have received under normal retirement circumstances. About 40 percent of disability retirees in the public sector receive unreduced normal benefits. Another 38 percent receive a benefit that is based on a formula different from normal retirement, but not necessarily reduced, while about 6 percent receive a reduced percentage of their normal retirement benefit.[48]

Age and service requirements

In New York City and State age requirements for collecting unreduced pensions vary by type of worker and tier. The provisions are most generous for police and fire employees, who are eligible after serving 20 years regardless of age. New York City and State teachers are eligible at age 55 with 20 years of service. All other City and State workers in Tier 1 can retire at age 55. Most other City and State workers may retiree at age 55 with 30 years of service or at age 62 with 25 years of service.[49]

For federal government employees, minimum retirement age (MRA) varies by years of service. In general, the MRA is 62 with five years of service, 60 with 20 years of service, and 55 with 30 years of service. For air traffic controllers, law enforcement officers and firefighters, it is age 50 with 20 years of service. Retirees at the MRA but with less than 30 years of service have

[48] *Employee Benefits in State and Local Government*, op. cit.
[49] Governor's Task Force, op. cit.

their benefits reduced by 5 percent for each year they are under age 62, unless they have 20 years of service and apply for benefits after age 60.[50]

Nationally, the majority of state and local government employees must reach age 55 to qualify for retirement benefits. Among the 41 percent of public sector retirees without an age requirement for benefits, over 34 percent must have 30 or more years of service to receive retirement benefits.[51]

Among the competitor states, five of the six without an age requirement require 30 or more years of service. Of the remaining five states, Texas and California have age and service requirements similar to New York's; Connecticut has requirements more stringent than those of New York while requirements in Massachusetts are less stringent. Michigan, through its defined contribution plan, requires only four years of service to vest and allows retirement at age 55. (Refer to Table 13.)

Summary of Comparative Analysis

The findings with respect to health insurance and pension benefits can be summarized as follows:

Retiree health insurance

1. New York City retirees receive benefits that are more generous than those provided to retirees of other government employers, and are exceptionally generous when compared to benefits provided to retirees of large private sector employers.
2. Benefits for retirees of New York State also are generous compared to the private sector and are more generous for retirees who were hired prior to 1983 than those provided by most public employers.

Pension benefits

3. New York City and New York State employees participate in defined benefit pension plans, while the majority of employees of large private sector firms participate in defined contribution plans. Only about one-quarter of the employees of large private firms are in defined benefit plans, and this proportion has been shrinking in recent years.
4. Compared to other public sector pension plans, New York City's and State's are relatively generous in three ways:
   - **i.** They require relatively low contributions from workers to the pension plans, with State workers typically contributing even less than City workers.
   - **ii.** They base benefits on a formula that includes overtime earnings, a practice rarely found in other public sector plans.
   - **iii.** They give increased benefits to some workers who retire with a disability, a practice not used by most other public systems. Some City plans define disabilities in ways

[50] <http://www.opm.gov/retire/html/faqs>.
[51] BLS, op. cit., 1998.

that allow an unusually large percentage of uniformed workers to qualify for these added benefits.

5. The minimum age and service requirements of the State and City plans are generally comparable to those of other state and local systems, but the age requirements are well below those of the federal Social Security system.

RECOMMENDATIONS

At a time when their workers are relatively well paid, and when their budgets are facing enormous gaps, the City of New York and the State of New York are providing retirement benefits that are costly and far out of line with those of other public and private employers. While the City systems, and especially those for police and firefighters, are the most generous, both sets of retirement benefits need a major overhaul. The Mayor and Governor should take the lead through administrative action and proposals to the 2005 legislative session in achieving significant reforms. The measures identified below are the CBC's recommendations for the key items that would make the City's and State's benefits more competitive and save taxpayers enormous sums in the future.

Health Insurance Benefit Changes

The City and State provide both early retirees and those over 65 (and their families) with health insurance. Each group should continue to receive such benefits, but under terms that more closely resemble the practices of other large employers.

1. Require retirees to pay 50 percent of the premium for health insurance for themselves and their dependents. This contrasts with the current practice of no required contribution for City retirees and more modest current contributions from State retirees. A typical single City retiree would face an out-of-pocket cost of about $1,450 annually (if under age 65) or $800 annually (if over 65). Had this policy been in effect in fiscal year 2004, the City would have saved about $325 million and the State about $275 million. Since the premiums are projected to grow rapidly, the future saving will be even greater.

The recommended 50 percent contribution is somewhat higher than the approximately 40 percent average among large private employers offering this benefit. (See Table 10.) However, as noted earlier, only 38 percent of all large private employers offer this benefit to retirees. A 50 percent payment by public employers would be significantly more generous than the overall practice in the private sector.

2. Stop reimbursing retirees for Medicare Part B premiums. This practice is out-of-line with benefits provided by other large employers and contradicts the philosophical and cost-saving goals behind the premium requirement established by Congress as part of Medicare's design. In 2004 this change would have required retirees to pay about $67 monthly, and would have saved the City and State $131 million and $88 million, respectively.

It should be noted that, unlike pension benefits, health insurance benefits for retirees have no constitutional protection. They can be changed for current as well as future retirees. The Mayor and Governor can initiate immediately the steps necessary to implement these changes. The City Council would also have to act to end Medicare premium reimbursements for City retirees, but the other actions are matters for the chief executives to negotiate with their workers' unions.

Pension Benefit Changes

Efforts to change pension benefits must recognize their protected status. To alter the benefits of current employees or retirees requires a constitutional amendment, and that requires action by two successive legislatures and a voter referendum. This is a rare process, requiring a major political effort. Given the formidable obstacles and the tradition of protecting existing pension benefits, a constitutional change is not warranted.

The CBC's recommendations address changes for future workers, whose benefits are not constitutionally protected and can be changed legislatively. Changes in pension benefits for future workers yield fiscal gains only slowly. However, a willingness to seek long-run gains for taxpayers is a true test of political leadership. In order to make retirement benefits more competitive and affordable in the future, the current Mayor and Governor must take action now. The fiscal rewards will be modest in their terms of office, but the service to the future fiscal heath of the City and State is enormous.

A long-run strategy – defined contribution plans

The long-run goal of pension reform should be to convert from defined benefit to defined contribution plans. Eventually, all City and State workers should have defined contribution plans, and the current system should fade away. This has become the dominant practice in the private sector, and it should be the approach for public servants as well.

The switch in type of plan does not intrinsically mean lower employer costs. The cost to employers under a defined contribution plan is determined by what the employer agrees to contribute. It could be more or less than is required under current defined benefit plans. In recommending a shift to defined contribution plans, the CBC does not necessarily envision an employer contribution (as a share of payroll) that is significantly less than the long-term average under defined benefit plans. The amount should be subject to collective bargaining. The case for shifting to defined contributions rests on two other fundamental points.

First, defined contribution plans facilitate worker mobility, while defined benefit plans typically reward (and even require) longevity. Under a defined contribution plan, benefits can be vested almost immediately, and the benefits are not disproportionately greater as one approaches retirement age. Workers can move freely among jobs and sectors without concern for adverse impacts on their pension benefits. This is good for the workers, and good for society, because a mobile workforce is increasingly essential in a modern economy. In contrast, defined benefit plans typically have a minimum vesting period and have disproportionate rewards as length of service increases and approaches 20 or more years. These provisions create incentives for workers to stay in their positions, despite other opportunities, as they approach the age and service requirements for benefits; the popular image of a civil servant serving out the required time to earn a pension is reinforced by the actual terms of the pension systems. The pension system should not "trap" workers who have other offers or who want to leave the workforce before meeting some statutory standard of age or service.

Second, the defined benefit plans create a political dynamic that gives unique advantages to civil servants and their unions, and places the taxpayers in double jeopardy. Unions have advantages in two ways. (a) They can seek pension enhancements via collective bargaining, but when they fail in bargaining they get a second chance by going directly to the State Legislature. The Legislature can and does enact benefit enhancements over the opposition of the mayor or governor, with whom the union would otherwise have to bargain. Such "end runs" around collective bargaining are common and expensive. (b) Because the State Legislature controls the benefits, but does not pay for them (at least in the case of the City), workers have a political advantage in gaining their support. Legislators have political incentives to support union demands, but need not face the taxpayers in raising the money to pay for them. The legislators pass the cost, in the form of higher local taxes, to locally elected officials when they consent to union requests for benefit enhancements. A better balance would be to keep benefit terms confined to collective bargaining, thereby keeping the decisions about the level of benefits in the hands of those who pay for them. A defined contribution system could do this.

The sensitivity of employer contributions to stock market conditions also creates a situation of double jeopardy for employers. When the market performs badly and returns are below actuarial assumptions, the employer bears the full cost and must make up the difference in their contribution. But when times are good and returns exceed projections, the employer faces another risk. Instead of allowing employer contributions to be lowered, the unions go to the Legislature and argue that benefit enhancements are affordable because the returns are high. The political temptation to spend "excess" earnings in good years is great, and it prevents employers from reaping the offsetting benefits to which they are entitled because they assume the full down-side risk. The 2003 legislation establishing minimum required contributions for the State funds may help limit the risk in good years, but the temptation to make benefits more generous will remain strong.

Finally, it should be noted that the alleged major danger of defined contribution plans can be guarded against with relative ease. The danger is that workers will mismanage their money, by investing it foolishly, and will not have sufficient funds for an adequate retirement when they reach that age. The available defense is to require workers to place their funds in a choice of approved plans, regulating the financial institutions that have opportunities to manage retirement funds. Similarly, federal tax laws prevent workers from withdrawing retirement funds prematurely. In addition, the federal Social Security benefits to which public employees are entitled also place a safety net under any defined contribution plan.

Primarily for these reasons, the City and State should seek to place all new workers in defined contribution plans. Legislation to achieve this should be introduced and enacted in 2005.

Plan B – an affordable tier system

If conversion of new workers to defined contribution plans cannot be authorized in the near future, political leaders should have a "Plan B." Less dramatic changes to the existing system may be a politically necessary interim step.

Changes to the defined benefit system should be guided by the comparative analysis presented in this report. The alterations in benefits should be designed to make New York's systems resemble more closely those of other large public and private employers. Five steps should be given priority.

1. ***Increase required employee contributions.*** Currently, the most common requirement is 3 percent for ten years. In most other systems, employee contributions are larger and last longer. The New York systems should require a higher percentage contribution, and not limit it to ten years. The ITHP program should be discontinued.

2. ***Raise the minimum age requirement for retirement*.** Currently, police and firefighters have no minimum age; many recently hired City workers will receive full benefits at age 57; for most other workers it is 62 for full benefits and 55 for reduced benefits. The federal Social Security system has recognized the increased life span and working lives of Americans and raised its age threshold for full benefits to 67 while keeping the criteria for reduced benefits at 62. The New York system should adopt similar age thresholds, perhaps with a lower minimum (but some minimum) for police officers and firefighters.

3. ***Base pension benefits on the more standard definition of final average salary.*** Currently the systems define FAS in ways that inflate benefits, deviate from the goal of replacing a reasonable share of a workers base salary, and are far more generous than the practices of other large employers. The FAS should be based on five years' experience and should take into account only base salary, excluding overtime and other supplements subject to manipulation.

4. ***Define work-related disabilities more rigorously.*** The current system permits workers to claim disabilities at the time of retirement and defines work-related disability, especially for certain uniformed workers in New York City, in ways that broaden access to this benefit without clear evidence of a work-related cause. These provisions should be revised to set more rigorous standards.

5. ***Eliminate the variable supplements available to some retired New York City uniformed workers*.** These annual payments or "Christmas bonuses," soon to be $12,000, supplement already generous pensions, create inequities between New York City and other uniformed workers in the state, and contradict the principle that pension payments should be a regular and predictable source of income for retirees.