by Carol Kellerman
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Photo by Jorbasa Under current rules, police can retire after 20 or 25 years of service and begin collecting a pension -- even at the age of 50 or younger.

Gov. Andrew Cuomo's proposal for pension reform is in the best interest of taxpayers and public employees. The plan would bring New York's pension benefits in line with those of other public employers, creating a more sustainable and affordable pension system, significantly reducing future costs and ensuring benefit obligations can be met. The proposal deserves support from legislative and union leaders.

While other states have neglected their pension funds, New York state and its local governments have historically funded their obligations. However, state and local budgets have been squeezed as the cost of pension contributions skyrocketed over the last decade. Between 2000 and 2010, pension contributions for state and local employers grew from 0.9 percent of payroll to 7.4 percent for civilian employees and from 1.9 percent to 15.1 percent for police and fire employees.

Contribution rates are projected to continue their growth for the foreseeable future, reaching 13.5 percent and 21.5 percent of payroll, respectively by 2015. These projections are low because the state opted to postpone making its full payments last year. It will need to make up these "borrowed" sums at a later date. In 2015, the contribution rates required to fully fund the annual obligation will be 20.9 percent and 27.1 percent of payroll for civilian and police and fire employees.

An Attack on Working People

To read an opposing view by Danny Donohue, president of the CSEA, go here .

The problem is especially severe in New York City, where costs have quadrupled from $1.5 billion to $7 billion since 2002 and will continue to grow to $8.7 billion in 2015. Pension contributions have grown from 4 percent to 11 percent of the municipal budget â€“ squeezing other priorities including education and social services. The thousands of layoffs proposed in the most recent budget are the clearest example of how growing pension costs force tough choices.

A Three-Part Solution

Tackling growing pension costs -- while ensuring retirement security for public employees --

requires broad thinking. Targeting fraud and eliminating double-dipping are important but on their own will not adequately address the problem.

The governor's proposal focuses on the features that make New York's pension systems costly -- even as compared to other public systems. The proposal makes three important changes to bring New York in line with other public employers.

First, the retirement age will increase to 65, the same age that retirees become eligible for Medicare. While uniformed employees still will be able to retire after 20 or 25 years of service, they will not receive pension benefits until age 65. Police and firefighters currently have no minimum age requirement; as a result, one-third of all New York City fire retirees and one-half of all City police retirees are under age 60. In localities outside New York City, over 80 percent of police and fire retirees in the last year were under 60, increasing the length and cost of benefit payouts.

As for teachers, they currently are eligible to retire at 57 and 55; 58 is the average retirement age for teachers in the state outside New York City.

Second, the plan would raise required employee contributions to bring them closer to national norms. Many New York state, city and local employees contribute only 3 percent of their earnings toward their pensions for only the first 10 years of employment. Only employees who opt for enhanced plans make larger contributions or contribute for a longer period of time. As a result, employer contributions to the pension funds exceed employee contributions by a ratio of 9 to 1. This proposal would require a 6 percent contribution from all employees for their entire length of service. The nationwide mean is 6.4 percent for state and local workers with a fixed contribution requirement.

Third, prospects for "pension padding" will be eliminated. Now the benefit is calculated using all wages -- including overtime -- for the highest three years of earning, giving public employees an incentive to rack up overtime at the end of their careers.

In the governor's plan, pension benefits will be calculated based on the highest five years' of earnings with maximum eligible wages capped at $179,000. Overtime pay will no longer be included in the earnings used to calculate benefits, bringing New York’s rules in line with 94

percent of other public employees nationwide. In addition, an "anti-spiking cap" will exclude extraordinary increases in income in any year.

Saving for the Future

Because pension benefits are constitutionally protected, the benefits of current employees and retirees would remain unchanged; the changes would only apply to future employees. As a result, the savings would be small initially but would grow to $93 billion for state and local governments and $30 billion for New York City over 30 years. The changes would create a more affordable pension system that would alleviate the pressures that rapidly escalating costs have placed on the structural balance of state and local budgets.

The proposal also would create a more sustainable system that ensures the retirement security of current and future workers. As experience in other states shows, when pension costs reach a breaking point, elected officials pay less than the required amounts, placing the solvency of the pension funds at risk.

New York has already started on this slippery slope. Rather than enact any additional gimmicks, legislators should support the structural changes proposed by Cuomo. This will reduce the costs of the pension system while ensuring pension benefits for state, city and local employees are not placed in jeopardy.

Municipal union leaders and their members should support these changes to the pension system. They, too, are taxpayers who have an interest in protecting vital services from drastic layoffs and other cuts necessitated by the whopping costs of fringe benefits. Pension benefits for current employees and retirees will be preserved, but the changes proposed for future employees will go a long way toward putting New York and its local governments on the road to good fiscal health.

Carol Kellerman is president of the Citizens Budget Commission , a nonpartisan civic group that seeks to promote the fisical health of New York state and city government.