

New York's pensions working

By Andrew Pallotta

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We are often reminded in politics that everyone is entitled to their own opinion, but not their own facts.

As fiscal conservatives and special interests representing big business and Wall Street intensify their attacks on public employee pensions, it's vital to separate half-truths and misleading spin from real facts. After all, does anyone really believe that Wall Street has the best interests of typical New Yorkers at heart?



New York's public pension system is strong, the strongest in the nation, according to a 2010 report by the Pew Center on the States. Both state employee retirement systems and New York's teachers' retirement systems are fully funded, and will continue to be so as long as constitutional protections for these important sources of retirement security remain in place.

The Tier 5 pension reforms adopted in December 2009 will provide \$35 billion in cost-savings to state and local governments and school districts over the next generation.

The idea that employer pension costs will rise ever upward, never to plateau and eventually decrease -- as they have done in the past -- is an exercise in fear-mongering.

Yes, employer pension costs have increased, but these costs are cyclical and reflect highs and lows in the stock market. During previous economic downturns, employer costs also rose, just as they are doing now. However, historical trends show that, as the stock market swings back up -- which it is also doing now -- taxpayer and school district costs flatten out and then decrease, often quite dramatically.

It's convenient that public pension critics forget that from 1997 to 2003, the stock market soared and districts paid less than 1.5 percent of payroll as their share of teachers' pension costs. For three consecutive years, school districts -- and taxpayers -- paid less than one-half of 1 percent.

All the while, newer teachers on the low end of the pay scale were contributing 3 percent of their salaries as part of their shared responsibility for funding their own retirement. For the latest 15-year period, taxpayers' contributions have averaged about 4.15 percent.

Where were public employee pension critics when state and local governments and school districts were contributing 0.36 percent in 2001-02 and 2002-03, while teachers and state workers were paying 3 percent of their salaries to the various state retirement systems?

Teachers aren't retiring with "golden parachutes," either. Typical pensions are in the \$30,000 range, and those who retired a decade or more ago take home much less. Less than 1 percent of retirees earn the much-ballyhooed six-figure pension, almost all former superintendents or administrators.

The benefits that retirees earn are also shared by all of New York state. Roughly 80 percent of every dollar paid out by the teachers' retirement system is sent to New York residents.

This produces a ripple effect that benefits state and local economies, creating billions of dollars in economic output for local businesses and generating billions more in tax revenue.

Some are calling for another new pension tier that would replace a secure defined benefit pension with a 401(k)-style retirement account. While there are a host reasons why defined benefit pensions are better for everyone, let's focus on a simple one: cost.

Switching to 401(k)-style defined contribution accounts may be good for Wall Street, which would reap extra fees from account holders, but could sharply increase operational costs. In fact, costs to operate 401(k) plans are around \$2 per \$100 of assets, as opposed to the roughly 10 cents per \$100 it costs taxpayers to run public pension plans, according to the New York State Teachers Retirement System.

Public pensions work. They are not only less expensive to operate, but they provide middle-class New Yorkers with retirement security they can depend on. If this security is stripped away, we will see a generation of older workers without the means to sustain a dignified life or to contribute to our state's economy in their golden years.

The worst thing that Albany could do would be to force reactionary changes to the pension system. Such a move may benefit Wall Street banks, but would do a tremendous disservice to taxpayers, the retirement security of the middle class and the state's long-term economic health. Those are the facts.

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