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Transit Strike Reflects Nationwide Pension Woes

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Fast-rising pension costs for government employees - the issue that helped set off this week's transit strike in New York City - are a problem confronting cities, counties and states nationwide, causing many budgetary experts to predict a wave of painful fights over efforts to scale back government retirement programs.

Many officials and fiscal experts assert that across the nation government pension plans face a shortfall of hundreds of billions of dollars. From New Jersey to California, government officials say that attempts - either through contract fights, legislation or public referendums - to limit the amount of money that states and cities contribute to pensions are inevitable and overdue. Labor unions, for their part, say that the worries are overblown.

"Every level of government in New York City, New York State and in states across the country face large and growing pension obligations," said E. J. McMahon, a budget expert at the Manhattan Institute, a conservative research group. "If nothing is done to bring pensions under control, all the other headaches that state governments will be facing in the next 20 years on needs like education and health will be enormously worse."

The contract battle for New York's transit workers, which has yet to be fully resolved, underscores the anger and risks that await governments as they seek to win concessions to cut their pension costs.

The strike, which lasted 60 hours and shut down the country's largest mass transit system, began when the union representing 33,700 bus and subway workers rejected efforts by the Metropolitan Transportation Authority, a state agency, to increase either the retirement age for future employees or the amount they contribute to finance their pensions.

But it is now possible - even after the strike ended - that the transit union may succeed in getting the authority to take all or some of its pension demands off the table as the two sides seek to put the final touches on an overall settlement.

With New Jersey facing a \$25 billion shortfall in its pension obligations, a state advisory commission recently urged that the retirement age for government employees, other than police, firefighters and judges, be raised to 60 from 55.

And in California, Gov. [Arnold Schwarzenegger](#) faced a storm of criticism after he proposed replacing the traditional pension plan for government employees with a far less generous plan resembling 401(k)s. He ultimately backed down even as budget watchdogs complained that many police officers retired with pensions equaling 90 percent of their annual earnings.

Many government employees and their unions assert that the campaign to trim pensions threatens America's social contract for the middle class: a respectable pension.

Saying that in recent contracts they had sacrificed wage increases or better health benefits for solid pensions, many public employees and their unions assert that governments are betraying their commitments by seeking to now cut pensions. Further, they argue that much of the shortfall in pension financing could be erased by a strong stock market in the next several years.

"A lot of people are exaggerating the size of the problem," said Gerald McEntee of the American Federation of State, County and Municipal Employees, which represents 1.4 million government workers. "Right-wing think tanks and conservative Republicans want to do away with traditional pension plans and replace them with much-cheaper 401(k)'s at the same time they want to give all these tax cuts to the rich."

The fight over public-sector pensions follows a movement to cut private sector pensions. In recent years, corporation after corporation has complained about what they assert are the onerous costs of pensions.

Bethlehem Steel, United Airlines and other companies, saying they could no longer afford it, have stopped paying into their pension plans, forcing the government to step in and absorb billions of dollars in costs. And now Delphi, the giant auto parts company that filed for bankruptcy in October, is threatening to do the same thing.

Meanwhile, some companies, Hewlett Packard among them, have replaced their traditional pension plans with 401(k) plans.

Many courts have ruled that cutting the pensions of current public employees - as opposed to future ones - violates the Constitution, which prohibits governments from breaching contracts. As a result, taxpayers must pay for full pensions promised to government employees.

When private companies go bankrupt and leave badly underfinanced plans, a federal agency, the Pension Benefit Guaranty Corporation, steps in to insure the workers' pensions, although many workers end up getting smaller pensions than their companies had promised. The agency is running a \$23 billion deficit this year and many policy

makers fear that its liabilities could mushroom if many more large corporations file for bankruptcy and dump their pension obligations on the government.

In New York's transit dispute, the transportation authority, which runs the city's subways and buses, was alarmed that the pension costs for the transit workers had tripled since 2002, to \$453 million this year.

To control soaring pensions costs, the authority at first demanded raising the retirement age for future employees to 62. Workers can now retire at age 55, after 25 years on the job, and receive pensions equal to half their earnings. They average \$55,000 a year, including overtime.

After the union, Local 100 of the Transport Workers Union, resisted that demand, the authority made a new proposal, that future transit workers pay 6 percent of their wages toward their pensions, compared with 2 percent for current workers.

The transportation authority is working closely with Gov. [George E. Pataki](#) and Mayor [Michael R. Bloomberg](#), who say it is vital to trim fast-rising pension outlays for state and city workers because they threaten the government's ability to provide education, policing and other basic services. New York City's annual pension outlays are expected to jump to nearly \$5 billion in 2008, more than double the level in 2004.

Mayor Bloomberg repeatedly called the strikers greedy. "The public says, 'I don't want to pay more taxes and I don't get these kind of benefits,' " he said yesterday. "You have no idea how many e-mails I got, 'I don't make that kind of money. I don't have those kinds of pension benefits. Why are people striking?' "

But Roger Toussaint, the president of the transit workers' union, said the walkout was aimed at stopping an employer offensive nationwide to cut pensions and other benefits. He said the transportation authority was mimicking corporate America.

"What you have here is a scandalous attempt on the part of the M.T.A. to jump on the bandwagon," he said.

Nationwide, 90 percent of public-sector workers have traditional benefit plans - known as defined-benefit plans because retirees receive a defined amount each month- while just 20 percent of private-sector workers do. In 1960, 40 percent of private-sector workers were in traditional pension plans. One reason for the disparity: 36.4 percent of government employees belong to unions while just 7.9 percent of private-sector workers do.

"The transit strike will undoubtedly draw attention to the issue," said Harry Katz, dean of the Cornell University School of Industrial and Labor Relations. "The message is, 'Look, we have to worry about the long-run cost of pensions in the public sector as well as the private sector.' "