Written by **Dennis Behreandt** on July 13, 2010

Facing Fiscal Meltdown, Municipalities Struggle With Pensions

New York City is a case in point. There, municipal employees are getting a sweet deal on the backs of taxpayers. For each dollar they put into their pensions, other taxpayers contribute an average of $8.60.

Moreover, the pain for the city's taxpayers has been increasing rapidly over recent years. According to the *New York Post*, taxpayers' share of pension costs in the city are up 900 percent in a decade.

It's a double-whammy for taxpayers," Manhattan Institute Senior Fellow E.J. McMahon told the *Post*. "If they're privately employed, they shoulder the risks of saving for their own retirement. At the same time, they have to pay a steadily mounting cost of guaranteed pensions for government workers."

The total cost shouldered by taxpayers in the city for municipal pensions reached $6.5 billion in 2009, the *Post* reported. That number is expected rise once again for 2010, to $7.6 billion and again in 2011 to a whopping $8.7 billion.

Who are the big winners in this fleecing of taxpayers?

• Teachers — "the city puts in $15.50 for every $1 they contribute," says the *Post*.

• Firefighters — the city's taxpayers contribute $10 for every $1 contributed by firefighters.

• Police — they get $9.13 from taxpayers for every dollar they supply.

But, the question is, don't they deserve it? Especially in the case of firefighters and police who perform important and often dangerous jobs on behalf of the city's residents, it appears difficult, if not outrageous, to criticize the funding of their pension plans.

Nonetheless, there are critics even among those who once worked within the system. John Murphy once served as executive director of the New York City Employee Retirement System. He told *Post* writer Susan Edelman that changes to the system may have been shortsighted and were put in place at exactly the wrong time. "The cost has risen because employee benefits were dramatically increased in 2000, just as the [stock] market began to collapse," Murphy said. "In retrospect, it was one of the most irresponsible things to have done."

As a result, the city now has to look at cost-cutting measures. "We are starting to focus on all our expenses," Mayor Bloomberg explained, saying, "clearly pensions are right near the top."

New York City is not the only municipality to find itself facing financial problems after years of big spending at taxpayer expense.

In Florida, the city of North Miami Beach is working to cut administration costs associated with city pension plans. According to the *Miami Herald*, the city voted to merge two plans, one for managers and one for other employees, into a single plan to save money. The move brought some "protests from the city's employees," the paper reported, but it was a necessary step to cut costs stemming from duplicate services because "a rise in the cost of … pension plans is expected to put a strain on the city's finances."

The same is happening statewide in New Jersey. There Governor Chris Christie has said that "real pension reform" is needed so the state can "get back on track."

In a radio interview, Christie elaborated: "I have nothing against people who work in the public sector," he told listeners to WABC-AM. "They work hard, they're fine folks, and they're doing a good job, in the main, for the people of our state. But there should be no sector of our society that is shielded from this recession at the expense of all the rest of our society."

Meanwhile, in Oakland, California, city and police union officials have been embroiled in efforts to avoid layoffs of up 80 of the city's officers. So far, some progress has been made, again with regard to pensions.

"With Oakland desperate to cut its public safety costs to balance its budget, the police union has agreed to two key city proposals," the *San Francisco Chronicle* reported. These include "that officers contribute part of their salaries toward their pensions and that retirement age be pushed back for future hires."

Meanwhile, it's city homeowners who could foot the bill in the form of new taxes. Some on the city council want a new tax that "would cost an estimated $360 per homeowner annually and would bring in $50 million," the *Chronicle* reported.

One option most municipalities have been loath to do is to move from traditional pensions to plans, like 401K plans, in which employees fund their investment accounts. Private businesses, by and large illustrating that the private sector is more fiscally responsible than government, moved aggressively to 401K plans decades ago.

Now, faced by the damage caused by years of irresponsible waste of taxpayer dollars, municipalities will have to make tough belt-tightening choices.

"Pensions, along with health benefits, are the 'budget busters' for towns and cities," Kevin Maloney of the Connecticut Conference of Municipalities told the *Connecticut Post* for a story on the problems with municipal pension plans in that state. "Local leaders are fighting to make the needed dramatic changes," he said.

If fiscally responsible leaders succeed, perhaps taxpayers will finally catch a break.