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Why the MTA is right...

With pensions, union has it made, says fiscal watchdog

By CHARLES BRECHER

The MTA leadership deserves the public's support for insisting that pension reform be part of a settlement with the transit workers. The case for redesigning retirement benefits is based on two basic points:

- Generous retirement benefits are no longer required to attract public-sector workers because most have higher wages than their private-sector counterparts.
- The costs of continuing those benefits are growing rapidly, and the money could be better used to contain fare and tax increases or improve services.

For decades the popular image of government employment included job security, wages that lag those of the private sector and relatively generous retirement benefits. But conditions have changed. Most local public employees now receive wages higher than those paid for similar work in the private sector, and they have far more generous retirement benefits.

The hourly earnings of state and local government employees exceed those of private-sector employees in the New York region by an average of 15% - \$28.26 to \$24.62. Blue-collar workers in the region are paid 30% more in the public sector than in the private sector. This pattern holds for the majority of jobs at the MTA.

With higher wages, the MTA and local public employees also enjoy exceptionally generous retirement benefits. With respect to pensions, most private-sector workers are part of "defined contribution" plans with pre-set employer contributions and with benefits not available until a worker is at least 59-1/2 years old. In contrast, the MTA workers and most municipal workers are guaranteed fixed benefits at age 55, with the benefits calculated under the unusual practice of including overtime in the base.

With respect to health insurance, retirees from the MTA and city (and their spouses) have the full premium cost paid by the city or the MTA; private employers rarely provide health insurance for retirees and, when they do, they typically pay only a fraction of the premium.

Generous pay and retirement benefits are no longer necessary to secure a qualified workforce. In the case of MTA car cleaners, for example, the MTA hires about 200 people per year; more than 28,000 individuals passed the exam - yielding about 140 qualified candidates for each opening.

And the generous retirement benefits are expensive. Health insurance premiums have grown at double-digit rates in recent years, and the MTA's pension fund contributions are projected to grow from \$480 million in 2004 to \$770 million in 2008.

For the city, the stakes are even greater with pension fund contributions growing from \$2.3 billion to \$5 billion over the same period. The strike will have been worth suffering only if changes are achieved in the retirement benefits of future workers.

The state Constitution locks in the pension benefits of current workers and permits changes only for newly hired workers, and they should be the focus of attention. The savings from modernized pension benefits would come slowly as new workers are hired. The savings in the next few years may be tens of millions, but in the longer run, recurring savings can be in the hundreds of millions annually.

The MTA leadership is right to fight for that change, and New Yorkers who are concerned about future fare increases should support them.

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... and the case for the TWU

By JAMES A. PARROTT

The pension tension behind the transit strike is part smoke screen, part reality.

First, the smoke screen part. Pension costs are not responsible for projected MTA budget gaps for 2008 or 2009 (there's no deficit before then). Rapidly rising debt service costs are the culprit. Gov. Pataki knows this and knows why. In fact, he's responsible for the MTA's soaring debt costs and for the fare hikes needed to pay for the borrowing binge. The governor wanted tax cuts in the late 1990s more than he wanted to pay for new rail cars and buses and the costs needed to fix the transit system. He cut the state's contribution to the MTA capital plan to help pay for tax cuts, forcing the MTA to borrow much more than it had in the past. The massive Pataki-sanctioned borrowing is now coming due, and we'll be paying for it well into the 2020s.

Debt service costs will double between 2002 and 2007 and keep on rising. By 2007 the MTA will pay twice as much in debt service costs as it pays in pension contributions. Pension costs are basically flat between 2006 and 2009, while debt service costs continue shooting up by 36%.

The MTA's pension contributions have risen since 2002, but that is mainly because of the need to make up for the pension fund's poor investment earnings during Wall Street's 2001-2003 downturn. Transit workers didn't cause that poor performance and shouldn't be penalized for it.

Moreover, in 2000 the MTA granted 9,000 management employees the same pension benefits as TWU-covered employees. The cost to the MTA for extending this benefit to top management dwarfs the savings the MTA would see if it got its way with the TWU. Yet these management employees were not asked to pay more than the 2% contribution the union is struggling to maintain.

The reality part of the transit pension issue is that the governor and the MTA have forced a strike over rolling back pension benefits because they perceive that globalization has workers everywhere on the run. Claiming transit workers are "selfish," Mayor Bloomberg also embraced the drive to roll back pensions by making new workers pay a much steeper contribution. This, despite the fact that only two months ago the mayor agreed to support the United Federation of Teachers in asking the state Legislature to reduce the retirement age from 62 to 55, exactly the provision the TWU is striking to preserve.

Real wages for most workers are falling and health and retirement benefits are being sacrificed on the altar of "global competition." In New York City,

the middle class is shrinking, poverty is rising and living standards are eroding as housing, energy and health costs skyrocket. But if New York City is not winning at global competition, then no place is. It's just that the gains from globalization are not being shared. Profits and incomes for those at the top are soaring while wages and living standards for everyone else are falling.

All workers - in both the private and public sectors - deserve good health care and should be economically secure in retirement. Curbing such benefits for transit workers only puts us on the fast track away from that goal.

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