

OUT OF BALANCE:
**A COMPARISON OF PUBLIC AND PRIVATE EMPLOYEE
BENEFITS IN NEW YORK CITY**

Citizens Budget Commission
and
Partnership for New York City

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The Citizens Budget Commission (CBC) and the Partnership for New York City recently completed a confidential survey of large private firms in New York City to provide a basis for comparing the health insurance and pension benefits of private sector workers with those of municipal employees. Analysis of the survey results indicates that municipal government workers have much more generous benefits. The City of New York would save about \$1.4 billion annually by aligning its health insurance benefits with those of local private sector firms, and additional savings are possible from changes in pension benefits for workers hired in the future.

Background

In the current fiscal year New York City taxpayers will pay \$10.4 billion for pension and health insurance benefits. This includes payments for the health insurance of current employees (\$2.5 billion), health insurance of retirees (\$1.2 billion) and contributions to pension funds on behalf of current workers (\$6.7 billion). The combined sum comprises about one-sixth of the total City budget, a share that has been growing in recent years.¹

For much of the 20th century most public sector employers, including the City of New York, provided generous pension and health insurance benefits as part of a compensation package that typically offered salaries lower than paid in the private sector for comparable work. Historically, individuals in public service opted for greater job security and retirement income over higher immediate wages.

However, for the past two decades or more the salary differentials between the public and private sectors have narrowed or disappeared for most occupational categories excluding management and selected professions. In 2005 the Citizens Budget Commission released a detailed report showing that for most occupational categories in the New York region public sector workers received higher hourly wages than private sector workers.²

One clear implication of this new reality is that the pension and health insurance benefits offered by municipal government no longer need to be more generous than those in the private sector in order for the City to attract high quality workers. Reforms in those benefits are essential to balance their cost to taxpayers and their value in helping to recruit and retain a competitive workforce.

In order to provide an up-to-date and meaningful picture of how the City's fringe benefits compare to those of large private employers in the New York area, the CBC collaborated with the Partnership for New York City in a survey of Partnership members to identify (1) how their benefits compare with those offered by the City of New York, and (2) how the private firms have changed their benefits in the last year. The survey yielded responses from 52 major firms with a total of more than 100,000 employees in New York City.

In the same time period, coincidentally, a survey was conducted by a nonprofit research organization of health insurance benefits (but not pension benefits) provided by local

¹ Data from the New York City Office of Management and Budget based on the Fiscal Year 2010 Adopted Budget.

² Citizens Budget Commission, *The Case for Redesigning Retirement Benefits for New York's Public Employees*, (April 2005).

governments across the nation.³ The respondents were more than 1,500 local governments including 196 with populations of more than 100,000. The results of this survey are included here as another basis of comparison.

Current Benefits for City of New York Employees

1. *Employee Health Insurance* – The City offers current employees health insurance covering medical and hospital expenses. The City pays the full premium cost of a comprehensive policy covering workers and their families. Employees pay a part of the premium cost only if they opt for coverage from a company with premiums above the competitive rate established by the City (less than 10 percent do so) or if they chose certain added benefits such as enhanced mental health coverage. The City also makes contributions to union welfare funds which provide supplemental benefits such as coverage for prescription drugs; these welfare fund contributions are in addition to the \$10.4 billion in pension and health insurance payments noted earlier.
2. *Retiree Health Insurance* – The City provides retirees and their spouses with the same comprehensive coverage as is provided to current employees and pays the full premium for the competitive plan. In addition, the City reimburses retirees over age 65 for their payments toward the cost of federal Medicare coverage.
3. *Pension Benefits* – City workers belong to one of five pension plans. All provide “defined benefits,” meaning the worker is guaranteed a benefit for their full retirement based on years of service and salary at the time of retirement. Individual benefits do not vary based on fund investment performance or the contributions made by the worker. This contrasts with “defined contribution” pension plans that oblige an employer to contribute a certain amount, but do not guarantee specific benefit amounts at retirement.

In June 2009 the City and the Municipal Labor Committee, a group representing a coalition of unions, announced a set of changes to the City’s two largest health insurance plans covering more than 90 percent of the workers. The major changes are new co-payments for certain hospital services under the HIP/HMO plan and tighter restrictions on the range of available providers under the GHI-CBP/Blue Cross plan. These changes are projected to yield recurring annual savings of about \$150 million, or about 4 percent of current annual premium costs.

Also in June 2009 the City and the United Federation of Teachers announced an agreement that reduced the number of days teachers are required to work by eliminating work on two days before the start of the school term for students. As part of the agreement the UFT agreed to support state legislation that would increase the required employee contributions to pension funds and increase vesting periods for retirement benefits. This legislation was passed on December 2, 2009. The agreement also provided for increased vesting periods for retiree health insurance; this reform requires local legislation that has not yet been adopted.

³ Cobalt Community Research, *Health and OPEB Funding Strategies: 2009 National Survey of Local Governments*, (Cobalt Community Research, 2009).

Comparative Findings – Employee health insurance

1. *The City is not unusual in offering employees health insurance and in offering a choice of plans.* Among the 52 private firms surveyed, all offer health insurance to current employees, 43 offer a choice of at least two plans and 34 offer three or more plans. Among the local governments in the national survey, 78 percent offered current workers health insurance.
2. *The City is highly unusual in paying the full cost of premiums for comprehensive insurance.* Among the 52 private firms only four (or 8 percent) do not require payments toward the premium from their workers. Firms have varying ways in which contributions are determined (fixed amounts varying by type of plan, percentage of wages varying by income group, etc.), but in most instances the required contributions are substantial. Selected data point to annual contributions from workers that are typically at least \$900 for individual coverage and \$3,500 for family coverage. These amounts are the equivalent of 22 percent of the annual premium paid by the City of New York for workers with single coverage and 32 percent of the premium paid by the City for workers with family coverage.⁴

Among the national group of local governments, about one-third required workers to pay at least 20 percent of the premium cost; the remainder paid at least 80 percent of the premium on behalf of employees, but the share paying the full cost was not identified.
3. *The City's recent changes in benefits are modest compared to those pursued by other employers.* Among the 52 firms, 31 indicated they had made changes to their health insurance benefits since January 1, 2008 and another five indicated they planned to do so effective in 2010, making the share with such changes nearly 70 percent. The most common types of changes were increased or added co-payments, increased deductibles and increased required employee contributions toward premiums – with many firms adopting more than one type of change. Among the national local governments, 29 percent increased deductibles in the last two years and another 13 percent expect to do so in the next two years; 25 percent increased copayments and 13 percent plan to do so; 18 percent increased employee premium contributions, and 17 percent plan to do so.

Comparative Findings – Retiree health insurance

1. *Offering retirees health insurance is not unusual, but is less common than offering insurance to current employees.* Among the 52 local private firms, 29, or 56 percent, offer insurance to retirees. Among the national group of local governments, only 30 percent offered retirees health insurance, and within this group about one-third (9 percent) offered it only to retirees who were not yet old enough to qualify for Medicare.

⁴ These percentages are based on the monthly premiums from GHI/EBCBS coverage for fiscal year 2009 as reported in City of New York, *Annual Comprehensive Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2009*, page 91.

2. *The City's policy of paying the full premium cost for retirees is highly unusual.* Among the 29 local private companies offering retirees health insurance, only two paid the full premium cost. Cost sharing among the others was substantial, with typical retiree required contributions of about \$2,950 for individual coverage and \$5,900 for couples. These amounts are the equivalent of 71 percent of the premium paid by the City of New York for single retirees and 55 percent of the premium paid by the City for retirees with family coverage.⁵

Among the national group of local governments, the small subgroup who offered retiree health insurance required substantial contributions from the retirees; 31 percent required them to pay the full cost, 26 percent paid less than 80 percent of the cost, and the remainder paid between 80 and 100 percent.

3. *Recent changes to retiree health insurance benefits are common in the local private sector.* Among the 29 local private firms offering insurance to retirees, more than half (15) made changes in benefits since January 1, 2008 and another three firms planned to do so effective in 2010, bringing the total share with recent changes to 62 percent. The most common changes were new or increased co-payments, increased contributions towards premiums and limits to prescription benefits. Among the minority of local governments offering retirees health insurance, changes were less common. About 5 percent did or will drop coverage for some retirees, and about 5 percent did or will increase the required premium share to 100 percent.

Comparative Findings – Pension benefits

1. *Local private firms offer defined contribution plans far more often than defined benefit plans.* Among the 52 firms, 47 or 90 percent offered a defined contribution plan. Unlike the City of New York's defined benefit plans, these private plans do not guarantee annual pension benefits and require only that an employer make a specific contribution each year the employee works. The other five firms had defined benefit plans; several other firms indicated they also offered a defined benefit plan, but these appear to be for longer-term employees and are not applicable to those hired in recent years.
2. *Local private firms are making changes to their pension plans in response to changing economic conditions.* Half or 26 of the firms made changes to their retirement plans since January 1, 2008. This included four that suspended company contributions, two that decreased company contributions and two that increased the required employee contribution. Some changes made the plans more attractive without increasing employer costs such as changes to the number and diversity of investment funds offered.

⁵ Ibid.

Implications

The practices of local private firms and of other local governments suggest that the City of New York could continue to attract a well qualified labor force while offering less generous health and pension benefits. Specifically, if the City required from its current workers contributions toward health insurance premiums equal to the amounts paid by employees of local private firms in the survey, then the savings to taxpayers would be about \$628 million annually; if it followed the same policy with respect to retirees, then the savings would be another \$741 million annually.⁶ This suggests combined annual savings for health insurance premiums of nearly \$1.4 billion annually from following policies competitive with the private sector.

With respect to pension benefits, the City could be competitive with the private sector by converting to defined contribution plans for its workers. Because the State Constitution prohibits changes in benefits for current workers, the new policies could be applicable only to future hires. The immediate savings would be small, and future savings would depend on the specifics of the plan adopted but likely would be substantial.

⁶ These estimates are based on fiscal year 2010 budgeted expenditures and required contributions from current employees averaging 25 percent of premiums for all (individual and family) types of coverage combined and contributions from retirees averaging 60 percent of premiums for all types of coverage combined.