OPTION:

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: $16 million annually

New York City is expected to spend approximately $1.1 billion annually on supplemental employee benefits. These expenditures take the form of city contributions to numerous union administered welfare funds that supplement benefits provided by the city to employees and retirees. Dental care, optical care, and prescription drug coverage are examples of supplemental benefits.

Consolidating these supplemental health and welfare benefit funds into a single fund serving all union members would yield savings from economies of scale in administration and, perhaps, enhanced bargaining power when negotiating prices for services with benefit providers and/or administrative contractors. Many small funds currently represent fewer than 5,000 members. In contrast, District Council 37's welfare fund membership exceeds 150,000. Although the specific benefit packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of consolidation of the funds.

Using data from the December 2014 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about $16 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for 64 welfare funds to be reduced from their current average of almost $145 per member to $135 per member, the cost of administering the District Council 37 fund, in 2011 dollars. IBO also assumes some savings from third party insurance providers through enhanced bargaining power.

Implementing the proposed consolidation of the benefit funds would require the approval of unions through collective bargaining. Note that this proposal has been included among the list of options that will be considered as part of the agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find ways to reduce the cost of delivering health services to the union's membership.

Proponents might argue that consolidating the administration of the supplemental benefit funds would produce savings for the city without reducing member benefits. They might also contend that one centralized staff dedicated solely to benefit administration could improve the quality of service provided to members of funds that currently lack full-time benefit administrators.

Opponents might argue that because each union now determines the supplemental benefit package offered to its members based on its knowledge of member needs, workers could be less well-off under the proposed consolidation. Opponents might also claim that a consolidated fund administrator would not respond to workers' varied needs as well as would individual union administrators.

OPTION:

Eliminate Reimbursement of Medicare Part B Surcharge to High-Income Retirees

Savings: $13 million annually

In 2007, the federal government began imposing additional Medicare Part B premiums on higher-income enrollees. The additional premiums, which are added on to the standard monthly premium, are referred to as Income Related Medicare Adjustment Amounts, or IRMAA premiums. Single retirees with annual incomes above $85,000 and married couples with incomes above $170,000 are required to make monthly IRMAA premium payments ranging from $42 to $231 per enrollee, depending upon total income.

Only about 4 percent of city retirees currently enrolled in Medicare Part B have incomes high enough to be required to make IRMAA premium payments. However, the City of New York fully reimburses all Medicare Part B premium costs, including IRMAA premiums, for city retirees, with a lag of about one year. Under this option, the city would no longer reimburse its retirees enrolled in Medicare Part B for any IRMAA premium payments they are required to make. The annual savings are estimated to be about $13 million.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

Proponents might argue that the federal government has seen fit since 2007 to require relatively high income Medicare Part B enrollees to contribute more for their coverage than standard enrollees. Therefore, it is inappropriate for the city to essentially shield relatively well-off municipal retirees from that decision by continuing to reimburse their IRMAA premium payments. They would also argue that the financial impact on higher-income retirees would be relatively small, particularly given that the city would continue to reimburse their standard monthly premiums for Medicare Part B coverage.

Opponents might argue that a single retiree in New York City with an annual income of $85,000 (or a couple with an annual income of $170,000) should hardly be considered wealthy. Therefore, it is not unreasonable for all their Medicare Part B premium costs to be fully reimbursed. They might also argue that if any reduction in reimbursement of Medicare Part B premiums is to take place, it should not impact current retirees, but instead only future retirees who would at least have more time to make adjustments to their plans for financing retirement.

OPTION:

Reduce City Reimbursements to Retirees For Standard Medicare Part B Premiums

Savings: $148 million in the first year

Eligible city retirees and their spouses/domestic partners are currently entitled to three types of retiree health benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B covers approved doctors' services, outpatient care, home health services, and some preventive services.

As of 2016, the standard Part B premium paid to Medicare by enrolled city retirees is about $105 per month, which translates to $1,259 per year or $2,518 per year for couples. The city at present fully reimburses all such premium payments, with a lag of about one year. Under this option, New York City would reduce standard Medicare Part B premium reimbursements by 50 percent, which would affect all enrolled city retirees and save the city $148 million in the first year.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

Proponents might argue that reduction of Medicare Part B reimbursements is warranted because the city already provides its retirees with generous pension and health care benefits. Proponents might also note that the majority of other public-sector employers (including the federal government) do not offer any level of Medicare Part B reimbursement as part of retiree fringe benefit packages, and those that do typically offer only partial reimbursement.

Opponents might argue that reducing the reimbursement rate for standard Medicare Part B premiums could adversely affect relatively low-income retirees, many of whom may be struggling to survive on their pension and Social Security checks. They might also argue that if any reduction in reimbursement is to take place it should be limited to future (but not current) retirees who would at least have more time to make adjustments to their plans for financing retirement.

Prepared by Bernard O'Brien

OPTION:

Eliminate Additional Pay for Workers On Two-Person Sanitation Trucks

Savings: $46 million in the first year

Currently, Department of Sanitation employees receive additional pay for productivity enhancing work, including the operation of two-person sanitation trucks. Two-person productivity pay began approximately 30 years ago when the number of workers assigned to sanitation trucks was reduced from three to two and the Uniformed Sanitationmens' Association negotiated additional pay to compensate workers for their greater productivity and increased work effort.

In addition, certain Department of Sanitation employees also receive additional pay for operating the roll-on/roll-off container vehicles. These container vehicles are operated by a single person instead of two people. These container vehicles are used primarily at large residential complexes, such as Lefrak City and New York City Housing Authority developments

Under this option, two-person productivity payments would cease, as assigning two workers to sanitation trucks is now considered the norm. Moreover, the one person roll-on/roll-off container differential would be eliminated.

In 2015, 5,997 sanitation workers earned a total of $38.9 million in two-person productivity pay—$6,482 per worker on average. In 2015, 213 sanitation workers accrued $1.7 million in one person roll-on/roll-off container differential pay, averaging out to $7,986 per sanitation worker. Eliminating these types of productivity pay would reduce salaries and associated payroll taxes in the sanitation department by about $46 million in the first year. Because productivity pay is included in the final average salary calculation for pension purposes, the city would also begin to save from reduced pension costs two years after implementation (the delay is due to the lag methodology used in pension valuation), and the estimated savings jumps to nearly $53 million.

This option would require the consent of the Uniformed Sanitationmens' Association.

Proponents might argue that employee productivity payments for a reduction in staffing for sanitation trucks are extremely rare in both the public and private sector. Since most current sanitation employees have never worked on three-person truck crews, there is no need to compensate workers for a change in work practices they have never experienced. Moreover, in the years since these productivity payments began, new technology and work practices have been introduced, lessening the additional effort per worker needed on smaller truck crews. Finally, some may argue that eventually, the productivity gains associated with decades-old staffing changes have been embedded in current practices making it unnecessary to continue paying a differential.

Opponents might argue that these productivity payments allow sanitation workers to share in the recurring savings from this staffing change. Additionally, since sanitation work takes an extreme toll on the body, the additional work required as a result of two-person operations warrants additional compensation. Finally, eliminating two-person productivity payments will serve as a disincentive for the union and the rank and file to offer suggestions for other productivity enhancing measures.

OPTION:

End City Contributions to Union Annuity Funds

Savings: $139 million annually

In addition to a city pension, some city employees are eligible to receive an annuity payment from their union, or in the case of teachers through the Teacher's Retirement System (TRS), upon retirement, death, termination of employment, or other eligible types of exit from city service. Virtually all of these unions offer lump-sum payments, though some also offer the choice of periodic payments, the form of payment available to eligible TRS members. Aside from members of United Federation of Teachers and Council of Supervisors and Administrators enrolled in TRS, most eligible employees are members of either the uniformed service unions or Section 220 craft unions representing skilled-trade workers (such as electricians, plumbers, and carpenters). The city makes monthly contributions to unions' or TRS annuity funds, with per member contributions varying by union, hours worked during the month, and in some cases, tenure. The value of these annuity payments depends on the total amount of city contributions and the investment performance of the annuity funds.

This option would end the city's contributions on behalf of current workers to union annuity funds and the TRS. If adopted, this option would effectively eliminate the benefit for future employees and limit it for current employees. Current eligible employees would receive their annuity upon retirement, but its value would be limited to the city's contributions prior to enactment of this option plus investment returns. The annuities of current retirees would not be affected. In fiscal year 2015, the city made approximately $114 million in union annuity contributions and $25 million to TRS. Annual savings from this option would be comparable. Implementation of this option would require the consent of the affected unions.

Proponents might argue that the city already provides generous support for employees' retirement through city pensions and, for some, recurring Variable Supplement Fund payments. Others might argue that it is inherently unfair for some union members to get this benefit, while other union members do not. Moreover, because employees eligible for annuities forgo further city contributions to their annuities when they move into management, there is a disincentive for these employees to leave their union jobs. Eliminating annuity benefits would remove this disincentive and enable the city to attract more qualified applicants for management positions.

Opponents might argue that annuities are a form of deferred compensation offered in lieu of higher wages and that the loss of this benefit without any other form of remuneration would be unfair. Moreover, some could contend that this benefit should actually be expanded for newer uniformed employees, since their pension allotment will be reduced at age 62 by 50 percent of their Social Security benefit attributed to city employment.

OPTION:

Increase the Service Requirements For Retiree Health Insurance

Savings: $11 million in 2027, growing to $35 million in 2029

Most city employees receive subsidized retiree health insurance if they collect a pension from one of the city-maintained retirement systems. Employees hired on or before December 27, 2001 become eligible after completing a minimum of 5 years of credited service while those hired after that date are required to complete 10 years. Under this option, all new employees would need to have at least 15 years of credited service, in addition to the other current requirements, before becoming eligible for subsidized retiree health insurance. This option is modeled after the agreement between the city and the United Federation of Teachers to increase from 10 to 15 the number of years of service required for retiree health insurance.

Adopting this option would generate savings only after 10 years, since it would affect new employees who would otherwise retire with more than 10 years but less than 15 years of service under the current system. If the option were to take effect at the start of 2017, the savings would begin in 2027—an estimated $11.4 million in the first year—and increase to $35.2 million in 2029. The savings come from workers no longer being eligible for retiree health insurance, a reduction in certain Retiree Welfare Fund and Medicare Part B benefits contingent on eligibility for retiree health insurance, and from employees delaying their retirement to qualify for retiree health insurance.

This option can only be adopted through collective bargaining.

Proponents might argue that since retiree health insurance is an extraordinary fringe benefit to former employees, it is not unreasonable to ask that this benefit be reserved only for those who have served the city for a long period of time. This option would help reduce pension costs because it would induce some employees to defer retirement, increasing the length of time some retirees would make pension contributions. This option could also boost the city's creditworthiness because it would reduce its reported liabilities for post-employment benefits.

Opponents might argue that this option would make it harder to attract highly qualified people to city government, particularly for certain hard-to-fill titles—such as engineers, architects, finance analysts, and others—where nonpecuniary fringe benefits such as retiree health insurance substitute for the city's less competitive pay. If the reduction in retiree benefits increases turnover, costs associated with attracting and retaining personnel will increase. They might also point out that this option would especially affect some of the city's lowest-paid workers, such as school crossing guards and school lunch aides, who rely on this untaxed fringe benefit as a significant part of their retirement package. Finally, the option could also increase the city's Medicaid spending if some employees who otherwise would have been eligible for retiree health insurance instead enroll in Medicaid.

OPTION:

Make New City Workers Eligible for Pay on Holidays Only After 90 Days of Employment

Savings: $12 million in the first year

Most full-time New York City employees are eligible for 12 paid holidays annually starting from their first day of work. Under this proposal, newly hired employees would not receive holiday pay until they completed 90 days of city service.

For new civilian employees, any holidays that occur during the first 90 days of employment would either not be paid or—depending on their civil service title and needs of their agency—be paid only if the employee works on the holiday. Newly hired police and correction officers, firefighters, and certain sanitation workers currently get checks twice a year for the holidays they have worked. Under this option, these uniformed employees would see a one-time deduction in holiday pay to account for the days they were ineligible for pay.

If this option were adopted, the city would save an estimated $12 million in the first year and grow somewhat each year thereafter. While New York City can unilaterally implement this proposal for its nonunion workforce, the city would need to negotiate with the municipal unions to implement this change for their members.

Proponents might argue that this proposal would be a relatively painless way to save money because it would ask new employees to bear a nonrecurring cost for a relatively brief period. They might note that since health insurance benefits for provisional employees start after 90 days of continuous employment, there is no reason not to treat other benefits such as holiday pay similarly. They might also argue that it is prudent to offer holiday benefits only to employees who have a reasonable expectation of long-term employment with the city. Additionally, proponents might argue that some union contracts in the private sector and even some in the public sector have such service requirements.

Opponents might argue that this proposal puts a burden on the city's new workers, rather than spreading it more broadly. They might also argue that new employees who start at low wage rates would be particularly hard hit by the lost pay under this provision, and few of these workers would have the option of working on the holiday or another time to avoid the loss of pay. In addition, the loss of holiday pay for the first 90 days of employment may be seen by some potential job seekers as a further erosion of the city's salary and benefits package and hinder efforts to encourage the most highly qualified applicants to apply for city service.

OPTION:

Merge Separate City Employee Pension Systems

Savings: $19 million in the first year, growing to $39 million in two years

New York City currently maintains five retirement systems: the New York City Employees' Retirement System (NYCERS), the New York City Teachers' Retirement System (TRS), the Board of Education Retirement System (BERS), the Police Pension Fund, and the Fire Pension Fund. This option would reduce the number of retirement systems to three—the same number that New York State maintains—by merging the city's Police and Fire Pension Funds into one system for uniformed police and fire personnel, and by transferring employees currently covered by BERS to either NYCERS or TRS.

The Police and Fire Pension Funds have very similar retirement plans making a merger of these two systems quite feasible. BERS covers civilian, nonpedagogical personnel employed by the Department of Education and the School Construction Authority, plus a small cohort of other personnel, such as education analysts, therapists, and substitute teachers, represented by the United Federation of Teachers (UFT). Under this option, the UFT-represented employees who are eligible for BERS would be merged into TRS, while the rest of BERS would be merged into NYCERS.

The estimated savings from merging pension systems, which would require state legislation, would come from reduced staffing made possible by greater administrative efficiencies, lower fees for investment fund advisors and program managers due to better bargaining power, interagency savings, and real estate savings. The city could also realize additional annual savings as a result of fewer audits by the Comptroller, and greater efficiencies in the Office of Actuary and other oversight agencies. There would be significant one-time costs of moving, training, portfolio rebalancing, and other transition expenses if this option were implemented. Allowing for these first year costs, the option would realize $19 million in savings in the first year, increasing to $39 million two years later.

Proponents might argue that given the broad overlap in the functions of the systems, it is wasteful to maintain separate administrative staffs in separate office spaces. Proponents could point out that the main differences between the police and fire pension systems relate only to actuarial assumptions and a few plan provisions. They could also note that recent pension reforms (Chapter 18) have placed almost all new BERS and NYCERS employees in the same retirement plan, thus facilitating any merger. Moreover, for BERS members who joined the pension plan prior to Chapter 18, there are plans in TRS and/or NYCERS with little, if any, differences regarding eligibility determination, benefit calculation, or credit for service time. Finally, many could advocate for this option because it achieves pension reform savings without adversely affecting retirement system members.

Opponents might argue that some differences between plans would complicate implementation of the option. Non-UFT members of the Board of Education Retirement System transferred to NYCERS would lose an attractive tax-deferred annuity benefit. Future school-based, part-time employees now in BERS would have to work about 25 percent more hours to obtain one year of credited service if their pensions were transferred to NYCERS. Some would argue that there are occupational and cultural differences between the police and fire departments that warrant separate pension systems. Opponents might also note that the city recently proposed merging BERS into TRS, but that the proposal was dropped due to union opposition.

OPTION:

Peg Health Insurance Reimbursement To the Lowest Cost Carrier

Savings: $253 million in the first year

The city is obligated to pay the cost of health insurance for active and retired city employees at a rate equal to premiums for the Health Insurance Plan's (HIP) health maintenance organization. Additionally, collective bargaining has established the Health Insurance Premium Stabilization Fund (HIPSF) in part to allow city employees and retirees who are not yet eligible for Medicare to select the Group Health Incorporated's (GHI) comprehensive benefit plan at no cost. When GHI's premiums are higher than HIP's, money in the fund is used to cover the difference. When the GHI rate is lower than the HIP rate, as it has been in recent years, including the current year, the city budgets for health insurance at the HIP rate and contributes the excess over the cost of GHI-enrolled employees to the fund. In addition, under a labor agreement the city contributes $35 million annually to HIPSF.

Under this option, the city would tie its budget for employee health insurance to the lowest cost provider for active employees. Employees selecting health insurance whose cost exceeds the rate charged by the lowest-cost carrier would either pay the difference themselves or, if the city and unions choose, have the premium differential paid in full or in part by the HIPSF, assuming there is enough money in the fund. To sustain HIPSF, the city would continue its annual $35 million contribution. Funding for health insurance of current and future retirees would not be affected, and the city would continue to peg funding to the HIP rate. It also would continue contributing to HIPSF to the extent the current non-Medicare retirees' GHI premium is below the HIP rate.

This option would save the city an estimated $253 million next fiscal year and slightly smaller amounts in following years. IBO's estimates reflect projected headcounts and an expected narrowing of the difference between GHI and HIP premiums in the coming years. Note that this option is among those that will be considered as part of the agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help cover the cost of the current round of collective bargaining and would require changes to the city's Administrative Code and union contracts.

Proponents might argue that this option allows the city to slow the growth in health insurance obligations without bringing hardship to city employees who would still have the opportunity to maintain a premium-free health insurance plan. Moreover, the overwhelming majority of city employees (74.4 percent, excluding those with insurance waivers) now choose GHI, the current lowest cost carrier. Should HIP become the lowest-cost provider, current HIPSF balances could cover in part or in whole any premium shortfalls for employees who select a different carrier. Finally, this option would allow other carriers to revise their health insurance package to become viable competitors with the lowest-cost carrier.

Opponents might argue that that removing the requirement to offer the HIP option would allow the city to offer a very low-cost health insurance plan without regard to quality. This proposal would reduce city contributions to HIPSF, which could quickly deplete the fund if the city maintains other HIPSF-funded benefits, such as the mental health/ substance abuse rider or welfare benefits for line-of-duty survivors. If HIP becomes the lowest-cost provider and HIPSF funding is not available, obtaining premium-free health insurance would become more difficult for employees who reside in New Jersey, where health care through HIP is limited. Additionally, this option could significantly increase health insurance costs of employees selecting plans other than GHI or HIP by widening the difference between their plan and the premium-free plan.

OPTION:

Require a Health Insurance Contribution by City Employees and Retirees

Savings: $570 million in 2018, $602 million in 2019

City expenditures on employee and retiree health insurance have increased sharply over the past decade, and IBO expects these costs will continue to increase at a fast rate. The Health Insurance Plan of New York (HIP) base rate has increased by 5.98 percent for 2017, and IBO projects that the HIP base rate will increase by an estimated 4.8 percent and 5.6 percent annually in 2018 and 2019, respectively. Approximately 95.5 percent of active city employees are enrolled either in General Health Incorporated (GHI) or HIP health plans, with the city bearing the entire cost of premiums for these workers. Savings could be achieved by requiring all city workers and those retirees not yet on Medicare to contribute 10 percent of the cost now borne by the city for their health insurance, with the city contributing 90 percent of the HIP rate.

IBO anticipates that the employee contributions would be deducted from their salaries on a pretax basis. This would reduce the amount of federal income and Social Security taxes owed and therefore partially offset the cost to employees of the premium contributions. The city would also avoid some of its share of payroll taxes.

Implementation of this proposal would need to be negotiated with the municipal unions and the applicable provisions of the city's Administrative Code would require amendment. Under an agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help offset the cost of salary increases in the current round of collective bargaining, a similar proposal could be considered if agreement cannot be reached on achieving the necessary savings through other options.

Proponents might argue that this proposal generates recurring savings for the city and potential additional savings by providing labor unions, employees, and retirees with an incentive to become more cost conscious and to work with the city to seek lower premiums. Proponents also might argue that given the recent significant dramatic rise in health insurance costs, premium cost sharing is preferable to reducing the level of coverage and service provided to city employees. Finally, they could note that employee copayment of health insurance premiums is common practice in the private sector, and becoming more common in public-sector employment.

Opponents might argue that requiring employees and retirees to contribute more for primary health insurance would be a burden, particularly for low-wage employees and fixed-income retirees. Critics could argue that cost sharing would merely shift some of the burden onto employees, with no guarantee that slower premium growth would result. Additionally, critics could argue that many city employees, particularly professional employees, are willing to work for the city despite higher private-sector salaries because of the attractive benefits package. Thus, the proposed change could hinder the city's effort to attract or retain talented employees, especially in positions that are hard to fill. Finally, critics could argue that free retiree health insurance was part of the social contract between the employee and the city, and that it would be unfair to break this implied contact, particularly for retired workers who have few options to adjust if a benefit they were counting on becomes more expensive.

OPTION:

Stop Including Overtime Pay When Calculating City Employee Pensions

Savings: $13 million in 2020, and contiuning to grow annually

A key factor in determining the monthly pension received by a retiring city employee is his or her final average salary (FAS). Based on legislation enacted in 2012, for city personnel joining one of the five city-maintained retirement systems on or after April 1, 2012, final average salary in most cases equals average pensionable earnings in the last five credited years before retirement. Among the other pension reforms was a limit on the amount of pensionable overtime pay allowed in the FAS calculation for almost all civilian employees: $15,000 a year, adjusted annually for inflation. Overtime for police, fire, and other uniformed service employees, as well as a small group of civilian employees, remains fully pensionable.

Under this option all overtime pay for all city employees would be eliminated in the calculation of FAS for pension purposes. Based on the current lag methodology, if this option took effect at the beginning of 2018, pension savings would start to accrue to the city in 2020 when they would equal $13 million. In subsequent years, the savings would increase by a comparable amount each year as the city replaces personnel leaving city employment with new hires whose overtime would not be pensionable. A significant share of these savings would come from the reduced costs of uniformed employees' pensions, as these workers typically accrue a considerable amount of overtime in their final years of employment, boosting their final average salaries and therefore their pensions.

This option would need state legislative approval.

Proponents might argue that pension amounts should not be based on overtime pay because unlike other types of pay that regularly add to the base salary, such as longevity and differential pay, overtime compensation varies widely and should not be considered a part of regular wages. Others might also argue that the current situation, in which only some city personnel are subject to an overtime ceiling, is inherently unfair. Additionally, if overtime pay were not a factor in pension costs, managers would have more flexibility to assign overtime to city workers without incurring associated pension costs.

Opponents might argue that if managers employ overtime instead of the often more expensive option of hiring new employees, current employees should be allowed to share in the savings by having overtime pay included in the pension calculation. They also might argue that within some work units, overtime earnings are so typical that they should be considered a portion of regular, pensionable pay. Some could also argue that for civilian employees, increasing overtime pay at the end of one's career is a needed hedge against inflation, since current cost-of-living adjustments for civilians—applied only to the first $18,000 of one's pension at 50 percent of the consumer price index, with a maximum annual adjustment of 3 percent—will not keep up with inflation. Furthermore, the impact of eliminating overtime as pensionable pay is compounded for uniformed personnel because when these workers become eligible for Social Security, at age 62 or earlier in some cases, their pensions are reduced by 50 percent of their Social Security benefits attributable to city employment—benefits derived from total pay regardless of whether it is pensionable.