

# NEWS FROM ASSEMBLYMAN MARC MOLINARO

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Contact: Kevin L. Crumb (518) 455-5746

## **BORROWING AGAINST THE FUND IS NO REFORM, ELECTED OFFICIALS SHOULD LEAD BY EXAMPLE**

*Legislative column from Assemblyman Marcus J. Molinaro (R,I,C-Red Hook)*

As the former mayor of Tivoli and Dutchess County legislator, I experienced the unique – and often conflicting – fiscal challenges confronting local governments. As New York ought to be doing, local governments attempt to balance their obligations to taxpayers – through prudent use of tax dollars. The challenge, however, continues to grow with Albany’s desire to pass its cost down to the local level with only limited relief.

Nowhere is this conflict more apparent than with the management of New York’s public employees retirement fund. Increased contribution costs to the taxpayer-guaranteed fund have evolved into a full-blown crisis for state and local governments. In 2010, state and local governments are responsible for contributing 7.4 percent of employee salaries to the fund. In 2011, that rate will jump to 11.9 percent of employee salaries. For police and firefighters, the amount of their salary covered by taxpayers will increase from 15.1 percent to 18.2 percent. Reports in this and other publications have highlighted two measures meant to provide local employer and taxpayer relief. One I sponsor; the other could prove disastrous.

Despite artificially low pension contributions a decade ago, current and projected contribution requirements are unsustainable. This is why I co-sponsor legislation requiring elected officials and the “political class” to shift from a defined benefit to a defined contribution plan, establishing for elected and appointed officials the public sector equivalent of a 401(k).

This bill would change the retirement plan coverage for public officers by freezing their current retirement tier, and placing them in a new defined contribution plan. Employees and their employers would be required to contribute three percent of annual compensation to a defined contribution plan. Such accounts are sensible from a fiscal and ethical standpoint, putting an end to the practice by some in elected office of manipulating our retirement system for personal gain.

The other proposal, hidden within the budget revenue bill agreed to by the two Democratic Majorities shifts pension fund obligations down the road by allowing limitless amortization of employer contributions. Municipalities and the state would be enabled to borrow against the state pension fund, “leveling off” future payments plus interest. Simply, they could “borrow” against the state’s retirement fund in order to pay pension obligations. This could cost taxpayers approximately \$2 billion in interest payments and further jeopardize the pension system.

Most troubling is that this proposal will allow amortization of payments without consideration of the municipality's fiscal condition, current debt-load, or whether or not the employer amortized prior year payments. Additionally, unlike any other form of locally initiated debt, no public consideration or specific legislative action is necessary to engage in this borrowing. Moreover, as is all too customary, New York State itself can participate in this "backdoor" scheme, circumventing any need to place such a decision before the voters or Legislature.

The state will take advantage of this initiative with glutinous abandon, local governments will be forced to consider it because of the state's inaction, and those relying on the fund's solvency will have their retirement fund threatened. Limitless indebtedness without concern for its impact to the fund or the fiscal solvency of the government participating will result in long-term financial calamity.

My legislation builds on the growing non-partisan consensus that pension costs are one of the foremost challenges confronting governments and taxpayers. This type of reform could offset property tax hikes and drive down the cost of government. This, plus allowing reserve accounts to "level off" payments, can assist in mitigating the high cost of government, provide relief to county and local governments, and end the "double-dipping" and "pension-padding" some elected officials engage in.

Having managed a municipal budget and led the management of Dutchess County's budget adoption, financial prudence is always best. Labeling proposals such as this as "reform" is Albany at its worst.

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