

## City Should Honor Past Deals

### Eliminating Police, Fire VSF Benefits Unjustified

By DAVID WEPRIN

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As former chairman of the City Council's Finance Committee and an investment banker, let me try to clear up some of the confusion surrounding the increasingly fashionable political attacks on public-sector-employee benefits, particularly as they relate to an issue attracting much public discussion lately, both at City Hall and in the corridors of the State Legislature—the Variable Supplements Fund (VSF) pension benefit for New York City police officers and firefighters.

Anyone familiar with the history of New York City police officer and firefighter labor and investment issues can see that a campaign to eliminate the VSF is, at best, the product of a fundamental misunderstanding of that benefit and of the tremendous value the city has reaped in concessions by the unions. At worst, it is an unconscionable attempt to steal money from the pension fund and go back on a series of negotiated settlements with police officers and firefighters, many of whom have already given their full service to this city.

#### **Both Sides Got Something**

The VSF began with a collective bargaining agreement in 1968 when the city agreed to create a variable supplement retirement benefit fund for police officers in return for the unions allowing the city to invest their members' pension funds in equity securities rather than lower-yield bonds. The increased returns from these investments, it was thought, would reduce the city's required pension contributions while excess earnings above a benchmarked rate of return would fund the benefit. Originally, the amount of the benefit for police officers and firefighters was theoretically unlimited, depending primarily on the level of stock market returns.

In the 1980s, equity earnings rose dramatically, producing almost \$1 billion in excess earnings to the VSF. Sensing a fundamental change in stock-market performance, the city wanted to use this bonanza for other budgetary purposes and urged the unions to modify the earlier agreement by granting the city the right to take 15 percent of the assets of the VSF—more than \$100 million—and allowing the city to derive the full benefit of those equity earnings in the future. In exchange for this and other contract concessions, the city promised to fund a limited defined benefit for each police officer and firefighter upon retirement, starting at \$2,500 per year and increasing by \$500 each year until it reached the maximum \$12,000 in 2007. The economic benefit to the city was tremendous—\$4 billion, by some estimates—and celebrated by city officials involved in the negotiations as one of the signature achievements of the Koch administration.

Now the city wants to unilaterally repudiate those labor agreements by taking money from a fund that doesn't belong to it, a fund owned by police officers and firefighters. That would clearly be unfair and inequitable and establish a bad precedent. The city has benefited handsomely from these collectively-bargained agreements, and should honor the obligations it assumed under them.

#### **Unlikely to Cost City More**

Paying these benefits is not likely to cost the city any budget expenditures—these funds have been self-sufficient for almost two decades. Dishonoring the city's obligation would be fundamentally unfair because police officers and firefighters have honored their agreement by providing faithful service day in and day out, most dramatically on and after 9/11. They fulfilled their obligation to serve and protect with the understanding that the terms of the agreement with the city which included these supplemental retirement benefits would be honored. And now many are relying on these benefits to support themselves in their retirement years.

New York City police officers and firefighters have already had their pension benefits unilaterally altered, in 2009, when new employees were placed in the new pension Tier III. I have studied the issue of police compensation over the years and know that their pension benefits are part of a compensation package that places police officers among the lowest-paid among comparable jurisdictions. With further pension cuts, we are running the risk of damaging two of the most efficient and effective agencies in city government. Let's put aside issues like this one that will serve only to undermine the credibility of government and get on to the serious work at hand.

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