

**Yankee Institute Policy Brief**

# **A Double Standard: Union Tax Policy vs. Union Dues**

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## Introduction

Unions dominate government workforces in Connecticut, making them powerful special interest groups. When they are not advocating for increased pay and benefits for their members, union leaders frequently lobby for progressive tax policies from the government while ignoring their long-term effects. Consistently demanding that wealthier citizens pay their “fair share,” they pursue policies that tax a larger percentage of income for those earning more money and a smaller percentage for those earning less. Of course, Connecticut already has such a tax structure in place, but according to progressive union leaders, the mechanism should be amplified, causing the wealthy to provide an even larger share of the state’s revenues.

A look inside union finances highlights the hypocrisy of their advocacy for more progressive tax rates. Much like Connecticut’s state government derives revenue from taxpayers, a union derives its revenue from its members’ regular dues. This provides union leaders with the unique opportunity to create a financial model of the tax system they propose that state government adopt.

However, a review of the documents which set dues rates for state employees found no state bargaining units whose dues collection had a progressive structure, let alone to the degree of Connecticut’s income tax. As member incomes rise, Connecticut unions fail to increase the cost of membership in a progressive manner. Instead, the unions use a variation of fixed per capita rates, flat percentages and other regressive approaches to distribute the cost of running a union.

In other words, unions often put the heaviest burden on their lowest-income members. By contrast, Connecticut income tax rates are already progressive, insofar as that the rates rise as incomes rise. Take, for example, the rates assessed on an individual filer.

Income	Tax Rate
\$0 to \$10,000	3%
\$10,000 to \$50,000	5%
\$50,000 to \$100,000	5.5%
\$100,000 to \$200,000	6%
\$200,000 to \$250,000	6.5%
\$250,000 to \$500,000	6.9%
\$500,000+	6.99%

By contrast, if Connecticut raised money the way unions do, tax rates would be assessed per person or based on a single rate, often with a maximum dollar amount. A union-style per-person tax would cost each working person in Connecticut about \$6,000, or nearly \$120 per week. Another union-style approach would be a flat 5 or 6 percent tax rate with a maximum contribution of, say, \$10,000.

Of course, there may be defensible reasons for unions to limit the cost of membership as income rises. For example, it is possible that lower-income members get all or most of the same benefits as members who earn more. It is also possible that high-income members would be less likely to belong to the union if the cost were proportionate to their incomes, which could have the perverse impact of reducing revenue despite the higher rates.

A review of union dues from 2004 to 2015 reveals a number of trends:

- While some bargaining units increased dues by as little as 16 percent over the past decade, most of those reviewed increased dues between 30 and 50 percent.
- Several other bargaining units have increased dues by more than 50 percent, with a few even doubling the cost of dues.
- Some unions have drastically increased dues on part-time workers and low-income earners, a particularly regressive policy.

Data for this brief comes primarily from two types of sources. When labor unions and bargaining units set or change dues rates for their members, the new rates are published in memoranda by the Office of the State Comptroller. All dues rates are listed as reported in these memoranda since 2004. This brief also relies on additional information, such as membership numbers, revenue, and total receipts for five unions. This additional information comes from Labor Organization Annual Reports, or LM-2s, filed with the United States Department of Labor. Only unions of substantial size, and thus revenue, file these reports.<sup>1</sup>

This brief will illustrate the constant growth in dues across many unions during the past decade, increasing the cost of union membership, especially for lower-income workers. Additionally, the dues rates and regressive structures will be compared across several labor unions, including the American Federation of Teachers (AFT), and the American Federation of State, County, and Municipal Employees (AFSCME), two of the largest unions in the state, and among the most vocal for progressive tax reform.

## **The State of Connecticut's Labor Unions**

Connecticut is among the top five states in the country in percentage of employed workers represented by a labor union,<sup>2</sup> and while the rest of the country has experienced a recent decline in union membership (from 12.5 percent in 2004 to 11.1 percent in 2015) Connecticut has seen a simultaneous increase, from 16.6 percent to 17.4 percent.<sup>3</sup>

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<sup>1</sup> Unions must file an LM-2 if total receipts exceed \$250,000. Only those who must file an LM-2 and have at least 10,000 members starting in 2005 will be featured in that more comprehensive analysis.

<sup>2</sup> "Union Affiliation of Employed Wage and Salary Workers by State.," *Bureau of Labor Statistics*, United States Department of Labor, <http://www.bls.gov/news.release/union2.t05.htm>.

<sup>3</sup> Barry T. Hirsch and David Macpherson, "Union Membership and Coverage Database from the CPS," *Unionstats.com*, unionstats.com.

Large labor unions, such as AFT, AFSCME, and others, are comprised of many smaller groups, or bargaining units. Each bargaining unit represents employees of related professions in a specific location. As a result, the larger unions influence workers in numerous fields. AFT, for example, represents workers in “healthcare, vocational education, financial management and planning, probation and child support enforcement, higher education administration and faculty, banking and fiscal regulation, forensic investigations and analysis, and facilities inspection and enforcement.” Additionally, they represent thousands in the Executive and Judicial Branches of the Connecticut state government.<sup>4</sup> AFSCME, by its own billing, is the “largest trade union of public employees in the United States,” with more than 1.6 million members across the country.<sup>5</sup> Both AFT and AFSCME are among the fifty-six unions under the umbrella of the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO), the United States’ largest federation of trade unions.

Connecticut’s workforce is just under 1.6 million people, with over 276,000 of these workers covered by a labor union. Sixty-two percent of the unionized workers are government employees.<sup>6</sup>

### **Advocacy for Progressive Taxation**

A full-page ad in *The Hartford Courant* on Feb. 17, paid for by the American Federation of Teachers, criticized Gov. Dannel Malloy’s recent budget plans, saying that he “fails to ask the richest among us to pay a little bit more.” Regarding the state’s effort to obtain a sustainable budget, Lori Pelletier, president of the Connecticut chapter of AFL-CIO, testified before the state’s Finance Committee in 2015 that, “Connecticut needs revenue, not more cuts.”<sup>7</sup> The AFL-CIO and other labor unions consistently push for this additional revenue through a progressive tax code, in which the rich pay a higher tax rate than the middle class. Additionally, the AFL-CIO expressly identified itself as “very strong proponents of progressive taxes,” in testimony before Congress by the organization’s former chief economist.<sup>8</sup>

In a progressive tax system, higher income results in a higher percentage of that income being collected as taxes. Low-income wage earners pay a smaller percentage of their salary to the government in income taxes than do their high-income earning neighbors. As a result, as a worker’s salary increases, the worker keeps a smaller percentage of his or her income.

The state’s largest unions have continued to go on the record advocating for these progressive tax structures. They argue that the state’s budget would benefit by increasing taxes on the wealthy in order to lessen the burden on the middle class.

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<sup>4</sup> *AFT Connecticut: A Union of Professionals*, AFL-CIO, <http://aftct.org/sector/799>.

<sup>5</sup> *AFSCME: About AFSCME*, AFL-CIO, <http://www.afscme.org/union/about>.

<sup>6</sup> Hirsch and Macpherson, *Unionstats.com*.

<sup>7</sup> <https://www.cga.ct.gov/2015/findata/tmy/2015SB-01135-R000423-Lori%20Pelletier,%20Executive%20Secretary-%20Treasurer,%20Connecticut%20AFL-CIO-TMY.PDF>

<sup>8</sup> Monetary Policy and the State of the Economy, Part 1, Hearing before the Committee on Financial Services, U.S. House of Representatives, 110th Congress, 23

Union leader voices have gotten louder as a result of Governor Malloy’s latest signals that unions may soon see reduced benefits and layoffs in order to help solve Connecticut’s growing deficit. Pelletier accused him of trying “to protect the very, very, wealthy.”<sup>9</sup> Last November, Sal Luciano, executive director of AFSCME Council 4 said, “every time there seems to be a problem, there seems like there needs to be a special tax on state employees.”<sup>10</sup> As Xavier Gordon, president of AFSCME Local 269 asked, “Governor Malloy, how can you balance the budget on the backs of the less fortunate?”<sup>11</sup>

“I know there are people who say there’s a spending problem. But,” Luciano insisted, “the fact is, it’s not true.”<sup>12</sup> Luciano also said, “it’s time to ask Connecticut’s largest corporations and wealthiest citizens like Tom Foley to help prevent devastating cuts by making a fair contribution to the state budget.”<sup>13</sup> AFT ultimately made this message even clearer with the aforementioned full-page ad in *The Hartford Courant*. It stated in large prominent print that, “Connecticut has a fairness problem.”

Fairness is a key theme for the state’s labor unions. So are they on to something?

### My, How the Dues Have Grown!

#### American Federation of State, County, and Municipal Employees (part of AFL-CIO)

AFSCME’s mission statement advocates “fairness in the workplace...and prosperity and opportunity for all working families.” However, the union’s dues rates have increased by 30 to 50 percent across many local chapters over the last decade, affecting employees’ take-home pay. These rates do not distinguish between different levels of income, as a progressive system would, but rather function as a “flat tax” for each bargaining unit.

	Monthly Dues-2005	Monthly Dues-2015	Change
<b>Connecticut Judicial Employees and Criminal Justice Employees</b>	\$13.36	\$19.50	<b>45.9%</b>
<b>Educators at Charter Oak State College</b>	\$13.61	\$17.82	<b>30.9%</b>
<b>Social and Human Service Employees</b>	\$13.79-14.29	\$19.25-\$20.76	<b>34.7-50.5%</b>

#### American Federation of Teachers (part of AFL-CIO)

<sup>9</sup> <http://ctmirror.org/2016/02/10/labor-advocacy-groups-call-for-tax-hikes-instead-of-budget-cuts/>

<sup>10</sup> <http://www.nhregister.com/article/NH/20151128/NEWS/151129611>

<sup>11</sup> <http://www.courant.com/politics/capitol-watch/hc-unions-protest-95-layoffs-at-state-labor-dept-20150914-story.html>

<sup>12</sup> <http://www.nhregister.com/article/NH/20151128/NEWS/151129611>

<sup>13</sup> <http://bfteacher.org/2015/04/24/republican-legislators-propose-budget-requiring-union-concessions-aft-ct-responds/>

In another inspiring mission statement, AFT “champions fairness.” Yet AFT’s various local bargaining units have continued to demand larger sums from their members over time, despite Pelletier’s admission that their wages are worth less than in the past.<sup>14</sup>

- Judicial Professional Employees had one of the longest streaks of static membership fees in the study, but fees have since increased by **28.5 percent** in just four years.
- Dues for the P-5 bargaining unit, representing AFT’s Administrative and Residual Employees Union, have increased for some members by almost **40 percent** in the last eleven years, despite a consistent 20.9 percent increase in wages.<sup>15</sup>

However, increases across the P-5 bargaining unit have not been uniform for all wage earners. Rather than take a stand and collect dues based on income – as they suggest for state tax rates – P-5 uses a very regressive approach.

### **Part-Time Dues are Particularly Regressive**

Unions have not only failed to heed their own call for a progressive tax system, which would tax the wealthy more than those in the middle and lower classes, they have also instituted some examples of extremely regressive dues structures, actually taxing lower-income members more heavily than high-income members.

The State Vocational Federation of Teachers (SVFT), also a unit of the AFT, increased the overall cost of dues, though at a very inconsistent rate among its members. Full-time employees saw an 8.4 percent increase in dues over the last decade. Part-time employees presumably earn less money overall than their full-time counterparts. Yet, in those same eight years, part-time dues have more than doubled, increasing by 105.3 percent.

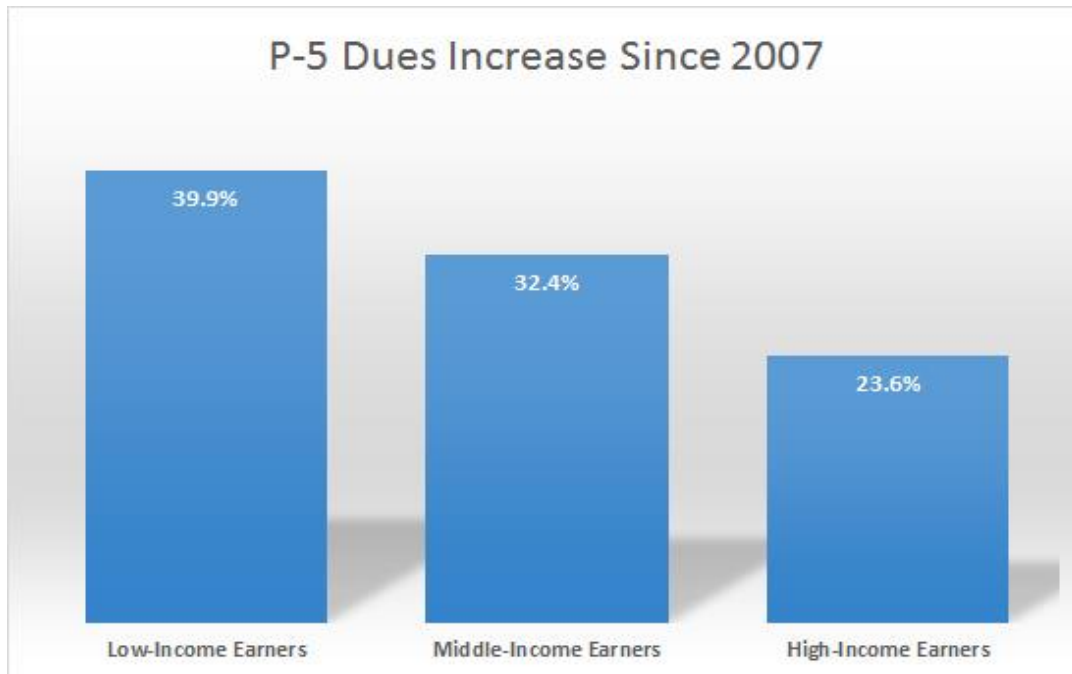
The P-5 bargaining unit of AFT’s Administrative and Residual Employees Union uses an inconsistent approach to distribute its costs to members.

Members in the lowest income range have had their dues increased by 39.9 percent. Those in the top income range for which consistent data is available had their dues increased by only 23.6 percent, and the income brackets between these two extremes follow a consistent inverse scale. Those with less income have seen greater increases in the cost of dues. Additionally, for every year in the study, those with less income are required to pay a higher percentage of their income in dues than their more financially-able counterparts – the reverse of both the sharply progressive system for which the union advocates, and the current government system against which they rail.

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<sup>14</sup> [http://www.ctnewsjunkie.com/archives/entry/new\\_coalition\\_will\\_lobby\\_for\\_tax\\_increase\\_equality/](http://www.ctnewsjunkie.com/archives/entry/new_coalition_will_lobby_for_tax_increase_equality/)

<sup>15</sup> P-5 AR 40-Hour Salary Plan, 2004-2015--PDF Document



### How Other Unions Fare:

#### Good

- The **International Brotherhood of Police (IBPO)** stands out among bargaining units for **keeping its rates static** over the last decade, with a slightly higher rate for full-time employees than part-time employees.
- The fees for **State Police Lieutenants and Captains (NP-9)** have been **similarly stagnant**, remaining at a flat 1 percent tax on biweekly dues. The maximum payment has increased slightly by \$2.

#### Bad

- Administrative faculty throughout the Connecticut State University system (AAUP) have seen a **46.1 percent increase** since 2005.<sup>16</sup>
- Fees for vocational and technical administrators (AFSA, Local 61) throughout the state have seen **two increases**, accompanied by plateaus. The second increase, of 18 percent, came in 2014.
- Meanwhile, NP-1 (CT State Police Union), representing state police, has increased its dues by **23.6 percent** in the same time period.
- The Police and Fire Union, NP-5, is separated into three groups (2,3,T) all of whose fees have risen at almost parallel rates since 2011, when information for Unit 3 became available. In the past nine years the fees for Unit 2 rose **50.6 percent**, and those for Unit T rose **46.4 percent** with most of the increase happening in the early part of the period reviewed.

<sup>16</sup> For all four universities, they are part of AFSCME Local 2836.

## **Fewer Members x Fair Dues = More Revenue?**

Across the country, union membership is sharply declining, hitting a 97-year low in 2013,<sup>17</sup> though Connecticut has experienced a marginal 0.4 percent growth since 2005.<sup>18</sup> Only five unions can be evaluated here, chosen because of their substantial size and the availability of additional disclosures. These unions typically consist of several smaller bargaining units.

Four of these unions have shown an increase in revenue derived from member dues. Although they vary in amount, all four increased by at least 16 percent since 2005. However, none of these four unions saw a parallel rise in membership; in other words, they received more money, which had to be provided by fewer people.

The New England Healthcare Employees' Union, which saw the smallest increase in revenue (the aforementioned 16 percent), actually lost members. The only one of these unions to gain a significant number of members (36 percent) more than doubled its revenue – a result that cannot be explained by membership growth alone. The scarce 6 percent in revenue lost by the fifth union, the Food and Commercial Workers, is dwarfed by the union's loss of almost 30 percent of its dues-paying member base. The Food and Commercial Workers union, in contrast to the four other unions mentioned, is an exclusively private-sector union.

### **American Federation of Teachers**

- In 2005, dues collected equaled just over \$4.1 million.
- Membership has increased by 12.7 percent since then.

What Could Have Been:

- Increased membership x *Consistent Dues* = \$4.7 million.
- Had average dues been decreased by 11 percent, the organization would still have seen a *gain* in revenue.

What Really Happened:

- AFT raised average dues by 35.8 percent.
- AFT collected \$6.3 million in members' dues.

### **Service Employees International Unit (SEIU Local 2001)**

- Membership has grown considerably, by 36.4 percent.

Outcome:

- The union used this membership to increase revenue by 131.5 percent.
- The union charged the average member almost 70 percent more in 2014 than it had a decade earlier.

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<sup>17</sup><http://www.forbes.com/sites/mikecollins/2015/03/19/the-decline-of-unions-is-a-middle-class-problem/#135151ff18be>

<sup>18</sup> <http://www.unionstats.com/>



	<b>AFSCME Connecticut</b>	<b>New England Healthcare Employees Union</b>
Decreased membership	7.14%	13.5%
Increased revenue	22.4%	16.5%
Increased dues	32.2% raise in average dues	34.7% raise in average dues

Although fewer members would normally lead to less revenue, the unions increased dues to more than compensate.

	<b>AFSCME 2005</b>	<b>AFSCME 2014</b>	<b>AFT 2005</b>	<b>AFT 2014</b>	<b>New England Healthcare Employees Union 2005</b>	<b>New England Healthcare Employees Union 2014</b>	<b>SEIU 2001— 2005</b>	<b>SEIU 2001— 2014</b>	<b>Food and Commercial Workers 2005</b>	<b>Food and Commercial Workers 2014</b>
<b>Number of Members</b>	33,943	31,425	25,104	28,298	20,800	18,000	16,274	22,196	11,141	8,119
<b>Per Capita Tax/Dues</b>	\$6,894,860	\$8,440,967	\$4,128,724	\$6,320,248	\$9,685,851	\$11,288,086	\$2,279,970	\$5,277,816	\$4,165,621	\$3,917,947
<b>Average Dues/Member</b>	\$203.13	\$268.61	\$164.46	\$223.35	\$465.67	\$627.12	\$140.10	\$237.78	\$373.90	\$482.57
<b>Total Receipts</b>	\$9,217,475	\$22,871,320	\$4,395,705	\$6,661,314	\$11,196,591	\$12,344,059	\$3,113,174	\$5,853,621	\$4,625,772	\$4,270,407
<b>Change in Membership</b>		-7.4%		12.7%		-13.5%		36%		-27.1%
<b>Change in Per Capita Taxes/Dues</b>		22.4%		53.1%		16.5%		131.5%		-5.9%
<b>Change in Average Dues/Member</b>		32.2%		35.8%		34.7%		69.72%		29.06%

## Conclusion

Unions doubtless have good reason not to adopt progressive dues structures. When setting tax rates, Connecticut policymakers should be guided more by what the unions do than what they say.