



New Jersey State PBA

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PFRS: Preserving a Sacred Trust

Pension Reductions versus Pension Protection:

A review of a decade of pension underfunding, PFRS Facts and the need to preserve Police and Fire Pension Benefits in the upcoming debate.

PFRS Funding Levels

An Overview of the Problem

The current pension reform proposals do nothing to reclaim the losses caused by pension deferrals and investment losses and serve merely to cast blame on PFRS members who faithfully funded their pensions while government mismanagement caused a severe drop in pension value.

From 1998 to 2009, the State and local governments were given an unprecedented and lucrative opportunity to skip, reduce and defer their required payments into the Police and Firemen's Retirement System (PFRS).

At the height of the Pension Holiday from 2001 to 2004, local governments contributed only 12% of their required PFRS pension contributions and since 2008 State Government has skipped nearly \$650 million in contributions to PFRS.

PFRS actuaries claim that the Fund experienced a recent net actuarial loss **“primarily as a result of investment returns” being less than anticipated “** (2010 PFRS Actuary Report).

This loss of funding not only zapped required money that would otherwise have been invested and used to pay down system liabilities but it also led to a greater underfunding of the PFRS and left local governments with HIGHER payments than they otherwise would have needed to make.

PFRS Pension Funding Cuts

Legislative History

P.L. 1997, Chapter 115

The Whitman “Pension Bond” law authorized the use of bonds and surplus pension assets to make a reduced pension payment toward normal contributions to the pension system.

P.L. 2000, Chapter 8

The law was meant to be a onetime accounting maneuver using excess pension assets to permit the State and local governments to reduce their PFRS pension contributions for 2000 and 2001. Local governments were expected to save \$45 million of the \$275 million PFRS contribution in 2000 and \$22 million of the \$249 million contribution for 2001. In reality they saved close to \$65 million in 2000.

P.L. 2001, Chapter 44

Local governments were again given a massive break on their PFRS contributions in 2001. Chapter 44 provided a \$150 million reduction in local government pension payments for 2001. The law was meant to “stabilize” PFRS pension contributions and *“savings realized by counties and municipalities as a result of the reduction will be required to be used for property tax relief”* (Assembly Appropriations Committee Statement to Senate Bill 1961). Local governments saved over \$170 million in 2001 and they made zero normal contributions in 2002 and 2003 as a result of the use of excess pension assets.

P.L. 2003, Chapter 108

The law permitted local governments to stagger their pension contributions between 2004 and 2008 (20% payment in 2004, 40% payment in 2005, 60% payment in 2006, 80% payment in 2007 and a 100% payment for 2008 and thereafter). The money not paid during this phase-in period was added to the unfunded liability of the PFRS and is required to be made up by local governments in their future payments.

P.L. 2009, Chapter 19

Local governments provided an optional pension deferral of 50% of their 2009 PFRS obligations.

State PBA and State FMBA Record on fighting for sound PFRS funding practices

The State PBA and FMBA has strongly opposed the deferral of pension funds over the past decade and has lobbied for reforms in PFRS disability and post employment rules.

Even when other State and local employees received a reduction in pension benefits (2001), the State PBA and FMBA opposed any attempt to reduce their contributions into PFRS in order to protect the funding level of the pension system.

The State PBA and FMBA supported the opinion of the Office of Legislative Services that deferring pension contributions hurts the pension system as well as local property taxpayers in opposing deferrals between 2000 and 2009.

The State PBA and FMBA has put forth reforms to restrict post retirement employment by any public employee to prevent pension fund payouts to people who rejoin government service.

The State PBA and FMBA has requested Legislative support to address State Supreme Court changes to disability pensions (Richardson case) that dramatically changed eligibility for accidental disability pensions.

Pension Reform Studies Warned that lack of funding, not PFRS members, are most serious problem facing pension system

“The State (and by extension local government) must meet its financial obligation by fulfilling its duty to fund the pension system.

From the 1990’s to the present, public employers at all levels of government have not fully adhered to their financial commitments to their employees. Before anything can be asked of employees in terms of a changed benefit structure, the State must first meet its existing obligations.” (Emphasis added)

Recommendations, Benefits Review Task Force to Governor Richard J. Codey, Philip Murphy Chairman, December 1, 2005

The Joint Committee on Public Employee Benefit Reform, Co-Chaired by Senator Scutari and Assemblywoman Pou, concluded that one of the “main contributors” to the unfunded liability of the pension system are “State and local government employer pension “holiday” totaling \$8 billion over seven years”.

Executive Summary, Joint Committee on Public Employee Benefit Reform Final Report, December 1, 2006

PFRS and its members are different

PFRS members (law enforcement and firefighters) perform an inherently dangerous job 365 days a year.

PFRS retirement benefits (normal, accidental, ordinary disability) reflect the nature of the risks associated with public safety

PFRS members face higher suicide and divorce rates and die earlier than the average employee (79.5 years of age (population) vs. 71.25 years of age (PFRS retiree)).

PFRS members make the largest pension contribution in NJ (8.5% of base salary).

PFRS members can't hold more than one position in PFRS and can't tack on jobs and salaries to get a higher pension as can be done in PERS

PFRS members **NEVER** deferred or reduced their pension contributions

PFRS members **DID NOT** receive the "9% pension increase" provided to PERS/TPAF

The Majority of PFRS members **ARE NOT ELIGIBLE** and **DO NOT RECEIVE** Social Security, thus saving local government millions in social security employer payments.

PFRS Facts and Figures

PFRS Member Census Data

Total PFRS members (7/1/2010)

Active Contributing Members 42,997 (36,395 Police/6612 Fire)

Total PFRS Retired/Beneficiary 35,916

Average Age - Entry 26.4

Average Age - 25 year Retirement 53.3

Average Age – All Retirees 51.25 (includes normal and disability)

Average Age - Active PFRS member 40.3

Average Age – Death (retirees) 71.25

Member Pension Contribution Rate 8.5% (since 1989)

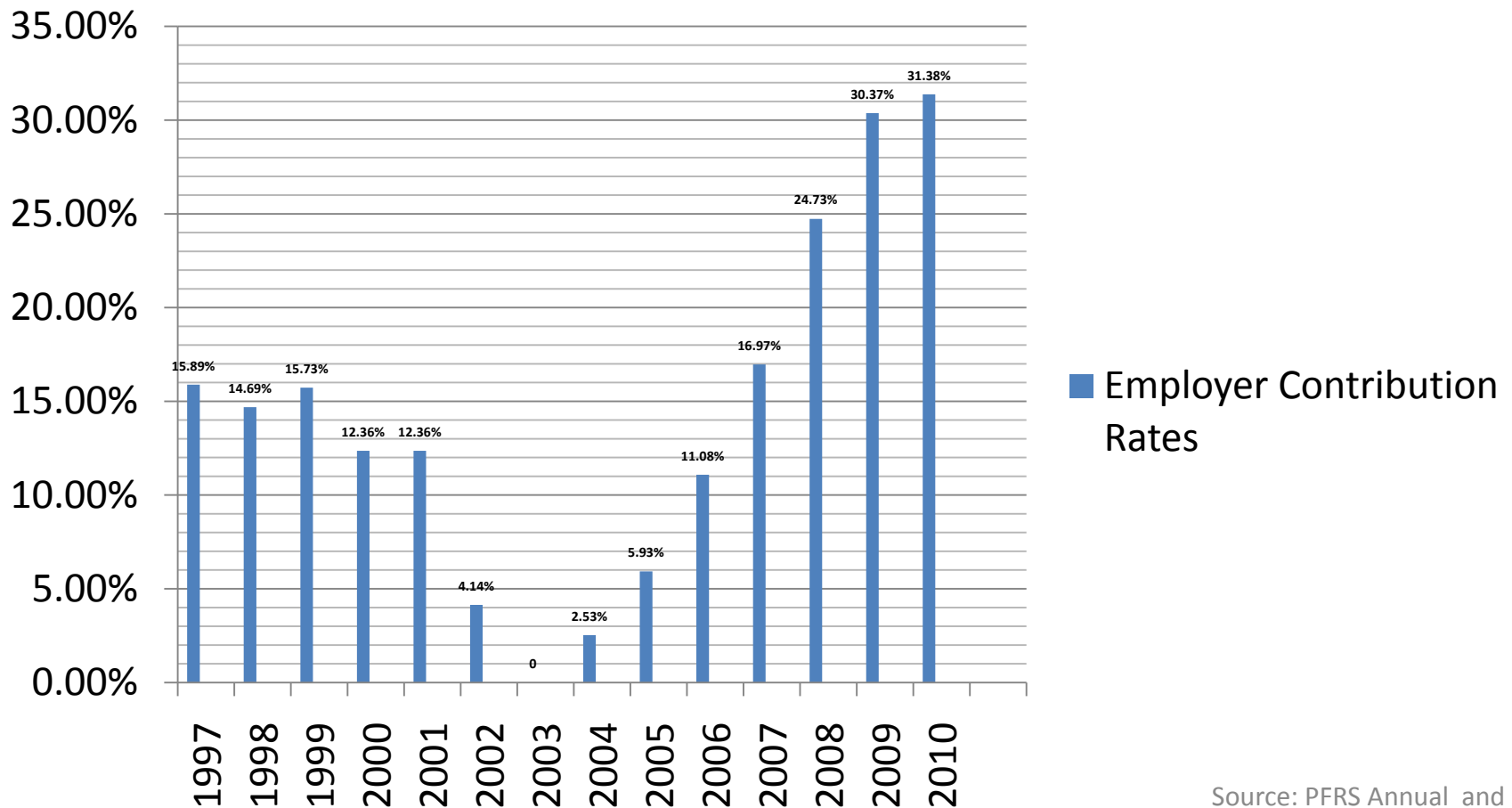
PFRS Facts and Figures

Pension Fund Value and Costs

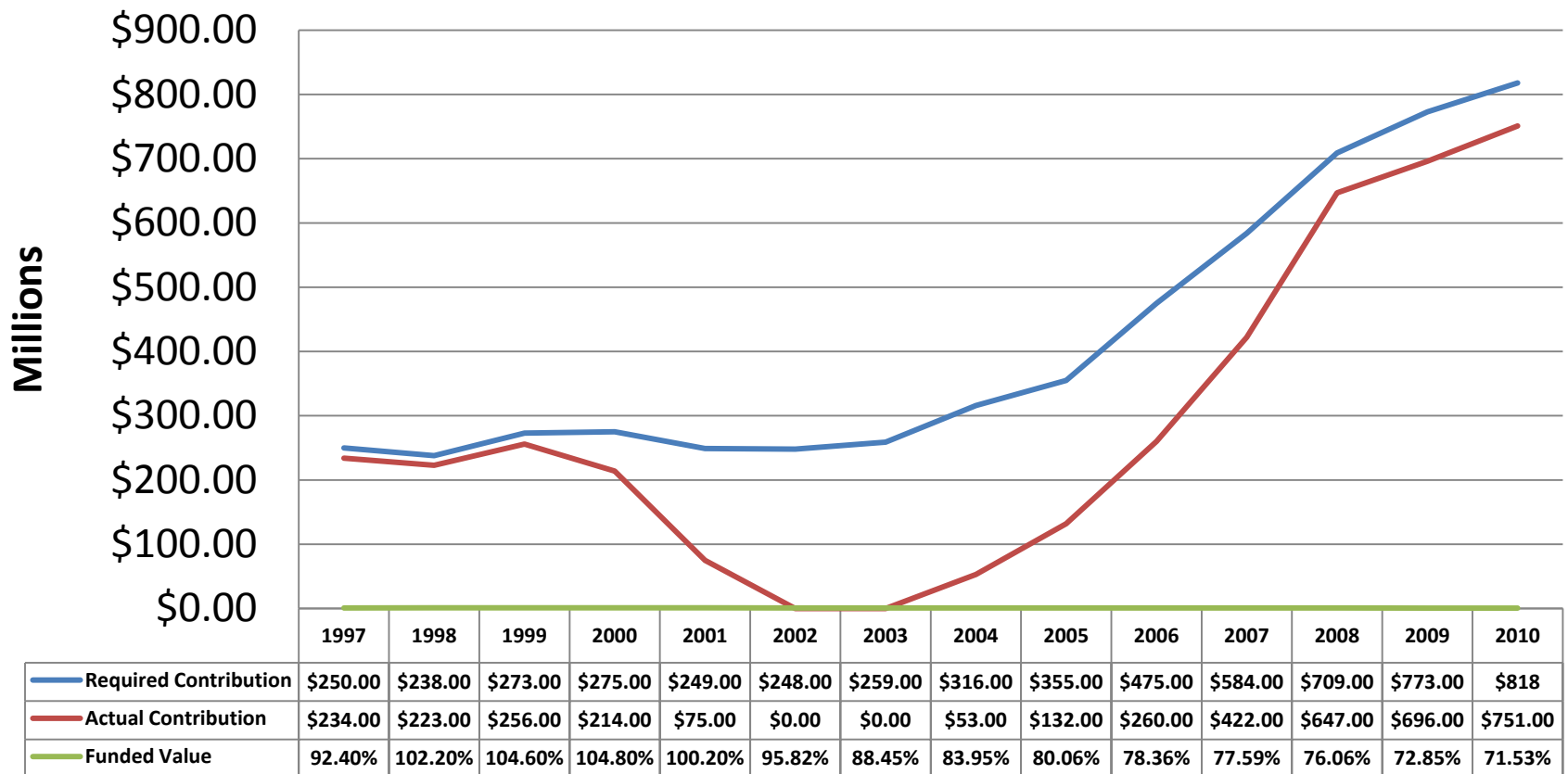
	<u>July 1, 2010</u>	<u>July 1, 2009</u>
Actuarial Value of PFRS Assets	\$23,464,481,781	\$22,937,837,757
Market Value of PFRS Assets	\$19,785,551,526	\$18,026,382,540
Unfunded Liability (Owed by State/Local)	\$10,599,791,859	\$9,504,263,488
Value of Benefits (present/future retirees) (The System is balanced between Actuarial Assets and Liabilities)	\$34,064,273,640	\$32,442,101,245
Funded Ratio (Actuarial Value of PFRS)	68.95% (State/Local)	70.83% (State/Local)
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Normal Cost of PFRS	\$703,795,630 (7/1/12)	
Accrued Unfunded Liability	\$697,470,953 (7/1/12)	
FY 2010 Employer Contributions (Local)	\$751,395,802	
Employer Contribution Rates (7/1/10)	31.3% (Local) – 15.597% to cover unfunded liability 40.6% (State) – 24.533% to cover unfunded liability	
FY 2010 Member Contributions (All) (This reflects a 70/30 split on contributions to support pension fund costs)	\$330,951,797	
Investment Income (2009-2010)	\$2,008,239,281	

PFRS Local Employer Contribution Rates 1997-2009 (Percentage)

The result of pension deferrals, coupled with the recession and bad investments, has led directly to a significant spike in the local employer contribution rate for PFRS. The growing contribution rates between 2003 and 2010 were required to pay for increases in unfunded liability caused mainly by deferrals of funds by local government into PFRS and aggravated by investment losses.



A review of the “Funded Value” of PFRS shows that a lack of funding provided by local employers as a result of pension deferrals and missed payments, combined with poor investments, caused the value of PFRS to plummet between 1997 and 2010. The value of PFRS will stabilize and grow as contributions are made and investment strategy is changed.



State PBA and FMBA Concerns Christie Pension Reduction Plan (A-3796/S-2705)

- PFRS **IS NOT** in danger or in need of dramatic reductions
- Reduction in benefits for any officer is likely illegal and defies OLS/AG opinion on non-forfeitable pension rights
- Governor's Proposal is a dramatic reduction without justification to specific costs/saving opportunities in PFRS
- Governor's proposal ignores his promise to protect PFRS as a "sacred trust"
- Bill grants huge savings to local government who caused pension deficit in first place with reductions on backs of PFRS members
- Elimination of accidental disability pension is an insult to cops seriously injured in line of duty
- PFRS is adequately funded (according to PFRS actuary) and needs to be protected from government funding failures in other State pension funds.
- Governor's proposal doesn't reflect PBA/FMBA efforts to reform disability and reenrollment abuses caused by government and the Courts
- Plan doesn't reflect that most cops don't receive Social Security

State PBA and FMBA Comments

Sweeney Pension Plan (S-2696)

- Concept of an “independent” PFRS is good idea supported by successful examples across the country
- PBA/FMBA will oppose PFRS Board selection process proposed in bill in favor of retaining Board elections
- PBA/FMBA concerns with contribution rate increases/benefit cuts by future Pension Board
- PBA/FMBA requesting that all unfunded liability caused by prior pension deferrals MUST be sole responsibility to repay of local government
- Legislation requires language banning post retirement employment and changes to accidental disability decisions to save millions