

Pension Reform III



Analysis of Governor and Democratic
Proposed Pension Changes

February 15, 2011

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

- Change pension fund in order to “save it”
- Governor Christie has proposed dramatic reductions in pensions and COLA for members of the State’s pension funds.
- Argues system is “unsustainable” with a \$55 billion deficit which contributions and investments can’t fix.

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

- Applies to all current employees with LESS THAN 25 years of service
- Changes pension calculations and disability pensions
- Eliminates COLA
- No provisions for State pension contributions even if changes are made (see Budget message, 2/22)

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

Special Retirement

- Retirement at 25 years = 60% of Average 3 highest years
- Retirement at 30 years = 65% of Average of 3 highest years

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

Service Retirement

- 20 years of service = 2% year between 20 and 25 years (retires under PL 1999, c. 428)

“Any member of the retirement system as of the effective date of P.L.1999, c.428 who has 20 or more years of creditable service at the time of retirement shall be entitled to receive a retirement allowance equal to 50% of the member's final compensation plus, in the case of a member required to retire pursuant to the provisions of subsection (1) of this section, [3%] 2% of final compensation multiplied by the number of years of creditable service over 20 but not over 25.”

- Increases from 4 to 10 the years needed to qualify for an “ordinary disability” under service retirement rules

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

Disabilities

- Eliminates “accidental disability” pensions
- Replace with 40% “work related” comp
- Establish earnings cap and pension reductions for earning in excess of possible pay if remained on job

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

Enrollment Prohibitions

- Prohibit future Sheriff to remain in PFRS after election
- Requires reenrollment for returning to same public employment and repayment of pension
- Freezes pensions if returning to public employment in different pension fund job

Governor's Proposal

Assembly Bill 3796/Senate Bill 2705

Pension Funding

- Unfunded liability repaid in “level dollars” instead of % set by State

Sweeney Proposal

Senate Bill 2696

- Splits pension funds into independent “labor-management boards”
- Reorganizes pension boards
- Provides Board with sole discretion on fund management, investment, contribution rates and benefits
- Eliminates co-mingling of pension funds
- Removes Division of Pensions/Treasury/AG control and/or interference

Sweeney Proposal

Senate Bill 2696

PFRS Board Structure

- Disband current PFRS Board
- Establish new 12 member Board
- 3 Trustees appointed by Gov from State
- State Treasurer
- 1 Mayor and 1 Freeholder
- 6 police and fire trustees appointed by union State Presidents and allocated based on number of union members represented by “qualified” union (no less than 2 unions from each service shall be represented on Board).

Sweeney Proposal

Senate Bill 2696

Pension Board Powers

- Appoint Board attorney (other than AG)
- Appoint actuary
- All investment functions and power to hire money managers
- Control contribution rates
- Control benefits based on funding needs

Sweeney Proposal

Senate Bill 2696

Contribution Rates – Normal Costs

- 8.5% employee rate but provides for cost sharing of “normal costs” of system to reflect current 70/30 split unless increased by the Board
- Board may annually adjust employee rate to fund any benefit enhancements or to reflect actuarially required contributions to properly fund costs

Sweeney Proposal

Senate Bill 2696

Unfunded Liability Payments

- Board shall require accelerated repayment of unfunded liability over designated period.
- Government required to repay its unfunded liability.
- Unfunded liability not caused by employer underfunding required to be shared by employees.

Sweeney Proposal

Senate Bill 2696

COLA

- LESS THAN 5 YEARS IN SYSTEM = NO COLA unless Board approves and employee pays additional costs to receive.
- MORE THAN 5 YEARS IN SYSTEM = Years of service to date credited but future COLA enhancements must be funded by employee through additional contributions to system.

Sweeney Proposal

Senate Bill 2696

Right to Pension Funding

- Establishes a government funded pension and required contributions as a “non-forfeitable right”
- Employees have a “contractual right” to securely funded pension system
- Failure of government to fund pensions deemed “impairment” of right
- Employee or Pension Board of Trustees may sue to enforce the funding of their pension system

Health Benefits Plans

- **Governor Plan announced next week**
 - At least 30% premium payment
 - Expand number of plans available but likely eliminate Direct 10/15 plans
 - Take less benefits to pay less in premium
- **Sweeney Plan announced today**
 - Sliding Scale for contributions based on salary
 - 12% to 30% cost of premium
 - Phase in over 7 years at conclusion of CBA
 - Freeze access to SHBP
 - Provide more health plan options to lessen cost

Key Legislative Hearing Possibilities

- Governor's Budget Message (Feb 22)
- Senate (March 3, 10, 14, 21 options)
- Assembly (March 3, 7, 14)
- Possible April Legislative Deadline

Possible Bill Scenarios

- Sweeney bill passes/Gov vetoes = stalemate
- Sweeney bill passes with Gov compromise = ?
- Dem/GOP Hybrid proposed during process?

State PBA Concerns with Governor's Pension Reduction Plan

- 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 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 Comments on Senator Sweeney Pension Plan

- Concept of an “independent” PFRS is good idea supported by successful examples across the country
- PBA will oppose PFRS Board selection process proposed in bill in favor of retaining Board elections
- PBA concerns with contribution rate increases/benefit cuts by future Pension Board
- PBA 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