

Senate Bill 2937

Overview and Questions



PBA Delegates Meeting
July 19, 2011

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Effective Date

Signed into law and effective: June 28, 2011

PENSIONS

- Increase in PFRS Contribution - 9/24/11, reflected in 10/14/11 check
- PFRS Board Independence - ???
- Reduced Benefits (PFRS) – All employees hired after 6/28/11
- COLA Frozen - Immediately

HEALTH BENEFITS

- Currently Out Of Contract – Effective Immediately
- Currently In Contract – At the conclusion of the contract

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PFRS Benefit Reductions and Changes

ALL Current and Future PFRS Employees

- Increase PFRS Contribution to 10% *
- COLA Frozen *

PFRS Employees HIRED AFTER 6/28/11 (“Tier 3”)

- Special Retirement = 60%/25 yrs - 65%/30yrs *

** - Subject to Change by PFRS Board*

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PFRS Committees

New “PFRS Committees”

- 2 Committees: State and Local
- Established when system Reaches “Targeted Funded Ratio”
 - “Targeted Ratio” is 75% in 2011 increasing to 80% over a 7 year period
- 10 Members each
 - 5 appointed by Governor to represent public employers
 - 5 appointed by employees
- 2 members appointed by President of union representing the greatest number of police officers in the State (PBA)
- 1 member appointed by President of union representing the second greatest number of police officers in the State (FOP)
- 1 member appointed by President of union representing the greatest number of firefighters in the State (FMBA)
- 1 member appointed by President of union representing the second greatest number of firefighters in the State (IAFF)

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PFRS Committee Powers

Independent PFRS Committee may:

- Modify member contribution rates
- Modify Special Retirement and Disability pensions
- Modify final compensation calculation
- Modify Retirement ages
- Reinstitute or adjust COLA (given priority in bill)

PFRS Committees prohibited from above if decision will cause PFRS to drop below 80% over a 30 year period

PFRS Committees have no investment power but may hire actuaries and consultants

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PFRS Committee Questions

- When is PFRS expected to reach its “targeted ratio” as a result of the cuts to COLA, future employee PFRS benefits and the increased contribution?
- Are these Committees actually “subcommittees” of the PFRS Board of Trustees and what powers does the current Board retain if one or both Committee’s are established?
- Can one of the new PFRS Committees vote to change benefits and one not (State vs. Local)?
- Does the current PFRS Board of Trustees retain authority to approve retirements, disabilities and to pass regulations on retirement matters regardless of Committee establishment?

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Employee Pension Rights

- Establishes “Contractual Right” to each member of retirement system for employers to make annual required pension contributions
- Members may sue to enforce employer to make timely payments

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Health Benefits

- Mandates every employee and certain retirees shall pay portion of the cost of coverage while in active service
- Cost sharing a percentage based on salary ranges
- Applies to all employers (SHBP/non-SHBP)
- Applies immediately to all employees out of contract
- Replaces any existing contractual agreements at conclusion of contract

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“Phase In”

Phase in of Contributions established in “Section 39” Grid over a 4 Year Period :

- Year 1 - $\frac{1}{4}$ of contribution required
- Year 2 – $\frac{1}{2}$ of contribution required
- Year 3 $\frac{3}{4}$ - of contribution required
- Year 4 – 100% of contribution

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Impact

- Immediate impact to employees out of contract
- Employees in CBA will begin 4 year “phase in” at the conclusion of contract
- No employee or retiree will pay less than 1.5% but current 1.5% is not added to amounts listed in grid
- Chapter 330 retirees included
- Payment of premiums for future retirees now mandated for employees with less than 20 years
- Any contract modifications made after 6/28/11 to an existing contract triggers health benefit payment obligations of the law

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Section 39 Grid

- Section 39 requires payment for health benefit “cost of coverage” for family, individual or member with spouse or child coverage
- Contributions range from 3% to 35% of premium depending on coverage
- Employee contributions determined by “Base Salary”
- Retiree contributions determined by “Retirement Allowance”

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“20 +Year Employees”

Employees who have 20 or more years of service as of June 28, 2011 are not required to pay for health benefits into retirement under the law

These employees DO pay the new contribution rates if out of contract or after current CBA based on grid until they retire

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“Sunset”

Despite the term, the health contributions under S2937 never “sunset” because:

- Contributions are required after CBA expires even if expiration is after 4 year phase in period
- Contributions established by the law become part of next contract negotiation as if they were part of expired contract for the purposes of the collective bargaining process
- Law fails to take into consideration prior concessions in prior contracts

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“Local Option”

Employees/Employers NOT COVERED by SHBP may enter into contracts for health care benefits coverage (with health care providers and employees) that avoid Section 39 grid contributions IF:

- Certain cost savings from health care plan provide savings in the aggregate over the period of the agreement can be demonstrated that are equal or greater than savings generated by contributions under law
- The savings are certified by the Department of Community Affairs

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Health Benefit Plan Design Committee

Establishes a SHBP Health Benefit Plan Design Committee to review and govern state health benefit costs. SHBPD Committee composed of 12 members (6 employer/6 employee)

Purpose is to design Health Plans that lower overall premium costs thereby reducing impact of Section 39 Grid contribution rates

Committee has the following powers:

- Authority over all health plans established by SHBP
- Power to establish, create, modify or terminate health plans and levels of coverage
- Power to establish 3 levels of coverage in each plan (single, family, children)
- Sole discretion over maximums, co-pays, deductibles and other plan costs