43:15A-24

LEGISLATIVE HISTORY CHECK
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LAWS OF: **1999** **CHAPTER:** 415

NJSA: 43:15A-24 (PERC – reduces)

BILL NO: S2231 (Substituted for A3570)

SPONSOR(S): DiFrancesco and Inverso

DATE INTRODUCED: November 8, 1999

COMMITTEE: **ASSEMBLY:** Appropriations

SENATE: Budget and Appropriations

AMENDED DURING PASSAGE: No

DATE OF PASSAGE: **ASSEMBLY:** January 10, 2000

SENATE: December 13, 1999

DATE OF APPROVAL: January 18, 2000

FOLLOWING ARE ATTACHED IF AVAILABLE:

FINAL TEXT OF BILL: Original
(Amendments during passage denoted by superscript numbers)

S2231

SPONSORS STATEMENT: (Begins on page 6 of original bill) Yes

COMMITTEE STATEMENT: **ASSEMBLY**: Yes

SENATE: Yes

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL ESTIMATE: Yes

A3570

SPONSORS STATEMENT: (Begins on page 6 of original bill) Yes
Bill and Sponsors Statement identical to S2231

COMMITTEE STATEMENT: **ASSEMBLY**: Yes
Identical to Assembly Statement for S2231

SENATE: No

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL ESTIMATE: Yes
Identical to Legislative Fiscal Estimate to S2331

VETO MESSAGE: No

GOVERNOR'S PRESS RELEASE ON SIGNING: No

FOLLOWING WERE PRINTED:

To check for circulating copies, contact New Jersey State Government Publications at the State Library (609) 278-2640 ext. 103 or refdesk@njstatelib.org

REPORTS: No

HEARINGS: No

NEWSPAPER ARTICLES: Yes

- "State pension boon signed into law," 1-19-00, Trentonian, p. 3

P.L. 1999, CHAPTER 415, ***approved January 18, 2000***
Senate, No. 2231

AN ACT concerning contributions to the Public Employees' Retirement System of New Jersey and amending P.L.1954, c.84.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. Section 24 of P.L.1954, c.84 (C.43:15A-24) is amended to read as follows:

24. The contingent reserve fund shall be the fund in which shall be credited contributions made by the State and other employers.

a. Upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute annually, beginning as of March 31, 1992, the amount of contribution which shall be the normal cost as computed under the projected unit credit method attributable to service rendered under the retirement system for the year beginning on July 1 immediately succeeding the date of the computation. This shall be known as the "normal contribution."

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

With respect to the State, upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the commission and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose. including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to the State:

(1) the valuation assets allocated to the State; less

(2) the actuarial accrued liability of the State for basic benefits and pension adjustment benefits under the retirement system; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the post retirement medical premium fund, created pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the State authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to other employers:

(1) the valuation assets allocated to the other employers; less

(2) the actuarial accrued liability of the other employers for basic benefits and pension adjustment benefits under the retirement system, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.229, P.L.1991, c.230, P.L.1993, c.138, and P.L.1993, c.181, for employers other than the State; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the other employers authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the

system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending March 31, 1996, the normal contributions payable by the State or by the other employers for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable by the State or by the other employers for the next valuation period as follows:

(1) for valuation periods ending March 31, 1997 through March 31, 2001, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending March 31, 2003, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after March 31, 2004, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under section 25 of P.L.1954, c.84 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation assets <u>and for calendar years 2000 and 2001, the rate of contribution shall be reduced by 2% from excess valuation assets</u>. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than **[**1/2 of 1%**]** <u>2%</u>, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State and local employers for the fiscal year beginning immediately prior to the calendar year, or for the calendar year for local employers whose fiscal year is the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

c. The retirement system shall certify annually the aggregate amount payable to the contingent reserve fund in the ensuing year, which amount shall be equal to the sum of the amounts described in this section. The State shall pay into the contingent reserve fund during the ensuing year the amount so determined. The death benefits, payable as a result of contribution by the State under the provisions of this chapter upon the death of an active or retired member, shall be paid from the contingent reserve fund.

d. The disbursements for benefits not covered by reserves in the system on account of veterans shall be met by direct contributions of the State and other employers.

(cf: P.L.1997, c.115, s.5)

2. This act shall take effect immediately.

STATEMENT

This bill provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2% of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1% of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

Reduces PERS employee contribution rate by 2% for calendar years 2000 and 2001 and under certain circumstances thereafter.

SENATE, No. 2231

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED NOVEMBER 8, 1999

Sponsored by:
Senator DONALD T. DIFRANCESCO
District 22 (Middlesex, Morris, Somerset and Union)
Senator PETER A. INVERSO
District 14 (Mercer and Middlesex)

Co-Sponsored by:
Senators Bryant, Turner, Singer, Allen, Sinagra, Matheussen, Assemblyman Kramer, Assemblywomen Wright, Watson Coleman and Assemblyman Gusciora

SYNOPSIS

Reduces PERS employee contribution rate by 2% for calendar years 2000 and 2001 and under certain circumstances thereafter.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 1/11/2000)

AN ACT concerning contributions to the Public Employees' Retirement System of New Jersey and amending P.L.1954, c.84.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

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24. The contingent reserve fund shall be the fund in which shall be credited contributions made by the State and other employers.

a. Upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute annually, beginning as of March 31, 1992, the amount of contribution which shall be the normal cost as computed under the projected unit credit method attributable to service rendered under the retirement system for the year beginning on July 1 immediately succeeding the date of the computation. This shall be known as the "normal contribution."

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the

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Matter underlined <u>thus</u> is new matter.

amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

With respect to the State, upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the commission and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose. including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to the State:

(1) the valuation assets allocated to the State; less

(2) the actuarial accrued liability of the State for basic benefits and pension adjustment benefits under the retirement system; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the post retirement medical premium fund, created pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the State authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to other employers:

(1) the valuation assets allocated to the other employers; less

(2) the actuarial accrued liability of the other employers for basic benefits and pension adjustment benefits under the retirement system, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.229, P.L.1991, c.230, P.L.1993, c.138, and P.L.1993, c.181, for employers other than the State; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the other employers authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending March 31, 1996, the normal contributions payable by the State or by the other employers for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable by the State or by the other employers for the next valuation period as follows:

(1) for valuation periods ending March 31, 1997 through March 31, 2001, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending March 31, 2003, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after March 31, 2004, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under section 25 of P.L.1954, c.84 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation assets and for calendar years 2000 and 2001, the rate of contribution shall be reduced by 2% from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than [1/2 of 1%] 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State and local employers for the fiscal year beginning immediately prior to the calendar year, or for the calendar year for local employers whose fiscal year is the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

c. The retirement system shall certify annually the aggregate amount payable to the contingent reserve fund in the ensuing year, which amount shall be equal to the sum of the amounts described in this section. The State shall pay into the contingent reserve fund during the ensuing year the amount so determined. The death benefits, payable as a result of contribution by the State under the provisions of this chapter upon the death of an active or retired member, shall be paid from the contingent reserve fund.

d. The disbursements for benefits not covered by reserves in the system on account of veterans shall be met by direct contributions of the State and other employers.

(cf: P.L.1997, c.115, s.5)

2. This act shall take effect immediately.

STATEMENT

This bill provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2% of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1% of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2231

STATE OF NEW JERSEY

DATED: JANUARY 6, 2000

The Assembly Appropriations Committee reports favorably Senate Bill No. 2231.

Senate Bill No. 2231 provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2 percent of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1 percent of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

As reported, this bill is identical to Assembly Bill No. 3570, as also reported by the committee.

<u>FISCAL IMPACT</u>:

The Department of Treasury estimates that the current 1/2 percent reduction, from 5 percent to 4.5 percent, in employee contributions to PERS pursuant to The "Pension Bond Financing Act of 1997," P.L.1997, c.114, will result in contribution savings for State employees of $15.6 million during fiscal year 2000. In addition, according to the March 31, 1998 actuarial valuation report by Millman & Robertson Inc., the current reduction for local PERS employees is valued at approximately $25.5 million for FY 2000.

Extrapolating from this information, the OLS estimates that the value of the contribution reduction to State employees in PERS as a result of this legislation will be approximately $96 million over the next two calendar years, while the value of employee contribution savings for local employees during this period will be approximately $156 million. Effectively, the savings to State and local PERS employees amounts to a 1 1/2 percent reduction in contributions given the current reduction of 1/2 percent.

After 2001, a reduction of up to two percent in employee contributions is contingent upon the annual determination of the State Treasurer that excess valuation assets may be used to reduce normal contributions.

Given the growth in the market value of assets of the PERS pension fund (reported to be $25.1 billion at the start of this year, up from $14 billion in 1995), it is anticipated that this legislation will have no impact on the General Fund in the foreseeable future. However, to the extent that a reduction in contributions translates into foregone fund assets, there will be fewer excess valuation assets in future years to offset State contributions to the fund.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2231

STATE OF NEW JERSEY

DATED: NOVEMBER 15, 1999

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 2231.

This bill provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2 percent of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1 percent of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

<u>FISCAL IMPACT</u>:

The Department of Treasury estimates that the current 1/2 percent reduction, from 5 percent to 4.5 percent, in employee contributions to PERS pursuant to The "Pension Bond Financing Act of 1997," P.L.1997, c.114, will result in contribution savings for State employees of $15.6 million during the current fiscal year. In addition, according to the March 31, 1998 actuarial valuation report by Millman & Robertson Inc., the current reduction for local PERS employees is valued at approximately $25.5 million for FY 2000.

Extrapolating from this information, the OLS estimates that the value of the contribution reduction to State employees in PERS as a result of this legislation will be approximately $96 million over the next two calendar years, while the value of employee contribution savings for local employees during this period will be approximately $156 million. Effectively, the savings to State and local PERS employees amounts to a 1 1/2 percent reduction in contributions given the current reduction of 1/2 percent.

After 2001, a reduction of up to two percent in employee contributions is contingent upon the annual determination of the State Treasurer that excess valuation assets may be used to reduce normal contributions.

Given the growth in the market value of assets of the PERS pension fund (reported to be $25.1 billion at the start of this year, up from $14 billion in 1995), it is anticipated that this legislation will have no impact on the General Fund in the foreseeable future. However, to the extent that a reduction in contributions translates into foregone fund assets, there will be fewer excess valuation assets in future years to offset State contributions to the fund.

FISCAL NOTE

SENATE, No. 2231

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: JANUARY 4, 2000

BILL SUMMARY

Senate Bill No. 2231 of 1999 provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2 percent of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1 percent of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

AGENCY COMMENTS

The Department of Treasury estimates that the current 1/2 percent reduction, from 5 percent to 4.5 percent, in employee contributions to PERS pursuant to The "Pension Bond Financing Act of 1997," P.L.1997, c.114, will result in contribution savings for State employees of $15.6 million during the current fiscal year. In addition, according to the March 31, 1998 actuarial valuation report by Millman & Robertson Inc., the current reduction for local PERS employees is valued at approximately $25.5 million for FY 2000.

OFFICE OF LEGISLATIVE SERVICES COMMENTS

Extrapolating from this information, the Office of Legislative

Services (OLS) estimates that the value of the contribution reduction to State employees in PERS as a result of this legislation will be approximately $96 million over the next two calendar years, while the value of employee contribution savings for local employees during this period will be approximately $156 million. Effectively, the savings to State and local PERS employees amounts to a 1 1/2 percent reduction in contributions given the current reduction of 1/2 percent.

After 2001, a reduction of up to two percent in employee contributions is contingent upon the annual determination of the State Treasurer that excess valuation assets may be used to reduce normal contributions.

Given the growth in the market value of assets of the PERS pension fund (reported to be $25.1 billion at the start of this year, up from $14 billion in 1995), it is anticipated that this legislation will have no impact on the General Fund in the foreseeable future. However, to the extent that a reduction in contributions translates into foregone fund assets, there will be fewer excess valuation assets in future years to offset State contributions to the fund.

This fiscal note has been prepared pursuant to P.L.1980, c.67.

ASSEMBLY, No. 3570

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED DECEMBER 2, 1999

Sponsored by:
Assemblyman PAUL KRAMER
District 14 (Mercer and Middlesex)
Assemblywoman BARBARA WRIGHT
District 14 (Mercer and Middlesex)

Co-Sponsored by:
Assemblywoman Watson Coleman and Assemblyman Gusciora

SYNOPSIS

Reduces PERS employee contribution rate by 2% for calendar years 2000 and 2001 and under certain circumstances thereafter.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 1/11/2000)

AN ACT concerning contributions to the Public Employees' Retirement System of New Jersey and amending P.L.1954, c.84.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. Section 24 of P.L.1954, c.84 (C.43:15A-24) is amended to read as follows:

24. The contingent reserve fund shall be the fund in which shall be credited contributions made by the State and other employers.

a. Upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute annually, beginning as of March 31, 1992, the amount of contribution which shall be the normal cost as computed under the projected unit credit method attributable to service rendered under the retirement system for the year beginning on July 1 immediately succeeding the date of the computation. This shall be known as the "normal contribution."

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the

EXPLANATION - Matter enclosed in bold-faced brackets ⟦thus⟧ in the above bill is not enacted and intended to be omitted in the law.

Matter underlined <u>thus</u> is new matter.

amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

With respect to the State, upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the commission and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose. including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to the State:

(1) the valuation assets allocated to the State; less

(2) the actuarial accrued liability of the State for basic benefits and pension adjustment benefits under the retirement system; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the post retirement medical premium fund, created pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the State authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

"Excess valuation assets" for a valuation period means, with respect to the valuation assets allocated to other employers:

(1) the valuation assets allocated to the other employers; less

(2) the actuarial accrued liability of the other employers for basic benefits and pension adjustment benefits under the retirement system, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.229, P.L.1991, c.230, P.L.1993, c.138, and P.L.1993, c.181, for employers other than the State; less

(3) the contributory group insurance premium fund, created by section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the other employers authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending March 31, 1996, the normal contributions payable by the State or by the other employers for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable by the State or by the other employers for the next valuation period as follows:

(1) for valuation periods ending March 31, 1997 through March 31, 2001, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending March 31, 2003, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after March 31, 2004, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under section 25 of P.L.1954, c.84 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation assets <u>and for calendar years 2000 and 2001, the rate of contribution shall be reduced by 2% from excess valuation assets</u>. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than **[**1/2 of 1%**]** <u>2%</u>, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State and local employers for the fiscal year beginning immediately prior to the calendar year, or for the calendar year for local employers whose fiscal year is the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

c. The retirement system shall certify annually the aggregate amount payable to the contingent reserve fund in the ensuing year, which amount shall be equal to the sum of the amounts described in this section. The State shall pay into the contingent reserve fund during the ensuing year the amount so determined. The death benefits, payable as a result of contribution by the State under the provisions of this chapter upon the death of an active or retired member, shall be paid from the contingent reserve fund.

d. The disbursements for benefits not covered by reserves in the system on account of veterans shall be met by direct contributions of the State and other employers.

(cf: P.L.1997, c.115, s.5)

2. This act shall take effect immediately.

STATEMENT

This bill provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2% of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1% of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3570

STATE OF NEW JERSEY

DATED: JANUARY 6, 2000

The Assembly Appropriations Committee reports favorably Assembly Bill No. 3570.

Assembly Bill No. 3570 provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2 percent of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1 percent of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

As reported, this bill is identical to Senate Bill No. 2231, as also reported by the committee.

<u>FISCAL IMPACT</u>:

The Department of Treasury estimates that the current 1/2 percent reduction, from 5 percent to 4.5 percent, in employee contributions to PERS pursuant to The "Pension Bond Financing Act of 1997," P.L.1997, c.114, will result in contribution savings for State employees of $15.6 million during fiscal year 2000. In addition, according to the March 31, 1998 actuarial valuation report by Millman & Robertson Inc., the current reduction for local PERS employees is valued at approximately $25.5 million for FY 2000.

Extrapolating from this information, the Office of Legislative Services (OLS) estimates that the value of the contribution reduction to State employees in PERS as a result of this legislation will be approximately $96 million over the next two calendar years, while the value of employee contribution savings for local employees during this period will be approximately $156 million. Effectively, the savings to State and local PERS employees amounts to a 1 1/2 percent reduction in contributions given the current reduction of 1/2 percent.

After 2001, a reduction of up to two percent in employee contributions is contingent upon the annual determination of the State Treasurer that excess valuation assets may be used to reduce normal contributions.

Given the growth in the market value of assets of the PERS pension fund (reported to be $25.1 billion at the start of this year, up from $14 billion in 1995), it is anticipated that this legislation will have no impact on the General Fund in the foreseeable future. However, to the extent that a reduction in contributions translates into foregone fund assets, there will be fewer excess valuation assets in future years to offset State contributions to the fund.

FISCAL NOTE

ASSEMBLY, No. 3570

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: JANUARY 10, 2000

BILL SUMMARY

Assembly Bill No. 3570 of 1999 provides for a reduction in the contribution rate required of State and local government employees who are members of the Public Employees' Retirement System (PERS) equal to 2 percent of compensation for calendar years 2000 and 2001, and for a contribution rate reduction of up to 2 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers in a fiscal year beginning immediately prior to a calendar year.

Current law provided a reduction in the PERS contribution rate required of State and local government employees equal to 1/2 of 1 percent of compensation for calendar years 1998 and 1999, and provides a reduction of up to 1/2 of 1 percent of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce normal State and local employer contributions to the system in a fiscal year beginning immediately prior to a calendar year.

AGENCY COMMENTS

The Department of Treasury estimates that the current 1/2 percent reduction, from 5 percent to 4.5 percent, in employee contributions to PERS pursuant to The "Pension Bond Financing Act of 1997," P.L.1997, c.114, will result in contribution savings for State employees of $15.6 million during the current fiscal year. In addition, according to the March 31, 1998 actuarial valuation report by Millman & Robertson Inc., the current reduction for local PERS employees is valued at approximately $25.5 million for FY 2000.

OFFICE OF LEGISLATIVE SERVICES COMMENTS

Extrapolating from this information, the Office of Legislative Services (OLS) estimates that the value of the contribution reduction to State employees in PERS as a result of this legislation will be approximately $96 million over the next two calendar years, while the value of employee contribution savings for local employees during this period will be approximately $156 million. Effectively, the savings to State and local PERS employees amounts to a 1 1/2 percent reduction in contributions given the current reduction of 1/2 percent.

After 2001, a reduction of up to two percent in employee contributions is contingent upon the annual determination of the State Treasurer that excess valuation assets may be used to reduce normal contributions.

Given the growth in the market value of assets of the PERS pension fund (reported to be $25.1 billion at the start of this year, up from $14 billion in 1995), it is anticipated that this legislation will have no impact on the General Fund in the foreseeable future. However, to the extent that a reduction in contributions translates into foregone fund assets, there will be fewer excess valuation assets in future years to offset State contributions to the fund.

This fiscal note has been prepared pursuant to P.L.1980, c.67.