18A: 66-18.1

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NJSA: 18A:66-18.1 et al

LAWS OF: 1994 **CHAPTER:** 62

BILL NO: S1263

SPONSOR(S): Inverso & DiFrancesco

DATE INTRODUCED: June 20, 1994

COMMITTEE: **ASSEMBLY** ---

SENATE: Budget

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REPORTS: No

HEARINGS: Yes

Recommendations by Governor Whitman--attached:
974.90 New Jersey. Office of the Governor.
G53.3 Budget in brief...March 15, 1994.
[pp. 15-19]

974.90 New Jersey. Legislature. Senate. State Management Investments
P418 & Financial Institutions Committee.
1994 Committee meeting on testimony concerning the governor's public employee pension & health benefits financing reform proposals. May 19, 1994. Trenton, 1994.

KBG:pp

[FIRST REPRINT]

SENATE, No. 1263

STATE OF NEW JERSEY

INTRODUCED JUNE 20, 1994

By Senators INVERSO and DiFRANCESCO

AN ACT concerning the State-administered retirement systems, revising various parts of the statutory law, and repealing N.J.S.18A:66-67 and section 58 of P.L.1954, c.84 (C.43:15A-58).

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

[1]1. (New section) In order to ensure the continued State funding of the public pension systems at levels related to the fiscal and financial soundness of those systems and in order to ensure the fiscal and financial integrity of the public pension systems, the Legislature finds and declares that:

a. public pension assets must be managed and administered to maintain their value and ensure appropriate levels of return on investment;

b. the accumulated assets of the public pension systems and their economic enhancement exist for the benefit of the retirees and members of those systems;

c. the statutorily-established benefits to which they are entitled belong to said retirees; and

d. no present or future retirees of the Teachers' Pension and Annuity Fund, the Judicial Retirement System, the Public Employees' Retirement System, the Police and Firemen's Retirement System, or the State Police Retirement System shall receive any reduction in benefits as a result of the provisions of this act, P.L. , c. (now pending before the Legislature as this bill).[1]

[1][1.] 2.[1] N.J.S.18A:66-18 is amended to read as follows:

18A:66-18. 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 of trustees adopts and regular interest, the actuary of the board 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[, expressed as a proportion of the compensation paid to all members, except veteran members who were employed as teachers on January 1, 1955, which, if paid monthly during the entire prospective service of such members, will be sufficient to provide for the pension reserves required at the time of

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.
Matter enclosed in superscript numerals has been adopted as follows:
[1] Senate SBA committee amendments adopted June 23, 1994.

discontinuance of active service, to cover all pensions to which they may be entitled or which are payable on their account, and to provide for the amount of the death and accidental disability benefits payable on their account, and which amount is not covered by other contributions to be made as provided in this section and the funds in hand available for such benefits]. This shall be known as the "normal contribution." [The actuary shall redetermine the normal contributions for the retirement system as of March 31, 1990 and March 31, 1991.]

b. Upon the basis of the tables recommended by the actuary which the board of trustees adopts and regular interest, the actuary of the board shall compute the amount of the [unfunded] accrued liability of the retirement system as of [March 31, 1990] March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits [and post-retirement medical benefits] for active employees funded pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section[, prospective employer normal contributions and employee contributions]. Using the total amount of this unfunded accrued liability, the actuary shall [determine a rate of contribution that shall be an] compute the initial amount of contribution [divided by the compensation of all active members for the valuation period where] which, if the contribution is increased at a specific rate and paid annually for a specific period of time, [it] 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 [1]on initial application of this section as amended by this act, P.L. , c. (now pending before the Legislature as this bill)[1]. [This shall be known as the "accrued liability contribution rate." The actuary shall compute annually an amount of contribution based upon the total compensation of all members in active service and the accrued liability contribution rate.] This shall be known as the "accrued liability contribution." Any [1]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[1] increase or decrease in the unfunded accrued liability as a result of actuarial [1][gains or][1] losses [1]or gains[1] 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 [1][40] 30[1] years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed [1][40] 30[1] 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 value of the assets for the valuation period ending

March 31, 1990 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending March 31, 1991 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of March 31, 1991.] The value of the assets to be used in the computation of the contributions provided for under this section for [the] valuation periods [ending on or after March 31, 1992] 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.

[The tables of actuarial assumptions previously adopted by the board of trustees for the valuation periods ending March 31, 1990 and March 31, 1991 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.), except that the assumptions for salary increases, medical premium inflation and increases in pension adjustment benefits shall be those proposed by the actuary to the retirement system in the draft revision of the annual actuarial reports for the valuation periods ending March 31, 1990 and March 31, 1991 submitted by the actuary on April 27, 1992.]

c. (Deleted by amendment, P.L.1992, c.125.)

d. 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, and which shall be paid into the contingent reserve fund in the manner provided by section 18A:66-33.

e. Except as provided in sections 18A:66-26 and 18A:66-53, the death benefits payable under the provisions of this article upon the death of an active or retired member shall be paid from the contingent reserve fund.

f. The disbursements for benefits not covered by reserves in the system on account of veterans shall be met by direct contribution of the State.

(cf: P.L.1992, c.125, s.2)

[1][2.] 3.[1] Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of the Teachers' Pension and Annuity Fund as provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f)] shall be paid by the retirement system and shall be funded as employer obligations [as provided in this section. Health care benefits for qualified retirees and their dependents shall be funded and paid through a separate fund or trust of the

retirement system in accordance with the requirements of subsection (h) of section 401 of the federal Internal Revenue Code (26 U.S.C. §401) or other fund or trust, established under the jurisdiction of the board of trustees, which shall receive contributions only to the extent that contributions cannot otherwise be made to a section 401 (h) trust due to the requirements of the federal law. Any premium payments for retired participants shall first be a charge upon such other fund or trust and only secondarily on the assets set aside under the section 401(h) trust. The pension adjustment and health care benefits for qualified retirees shall be funded as employer obligations] by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability [contribution rates] contributions for [these benefits] pension adjustment benefits for active employees shall be determined for the [1990] 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability [contribution rates] contributions shall be [31.25% for valuation year 1990, 34.50% for valuation year 1991, and 34.50%] 20% for valuation year 1992[,] and 23.33% for valuation year 1993, and [the level of recognition] shall be increased by [6%] 2.33% for each valuation year thereafter until the full normal and accrued liability [contribution rates] contributions are fully recognized. [The board of trustees shall determine the assumed percentage rate of increase applied to the cost of providing paid health benefits for retirees.]

Health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending March 31, 1994, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State.

(cf: P.L.1993, c.8, s.1)

[1][3.] 4.[1] N.J.S.18A:66-29 is amended to read as follows:

18A:66-29. [Any member of the retirement system as of January 1, 1956, shall pay the proportion of compensation as provided by section 18A:66-5 applicable to the age at enrollment, which proportion shall not be increased during the continuation of membership other than as provided in this section or section 18A:66-67, and shall make any special payments either as lump sums or as installment payments as required by the board of trustees as a result of election by the member to obtain additional service credit. Members enrolling on and after January 1, 1956 shall contribute at the proportions applicable to class B members of the "public employees' retirement system" as of January 2, 1955. No member shall be required during the continuation of his membership to increase the proportion of compensation certified at the time of becoming a member as payable by him other than as provided in this section or section 18A:66-67.

As of the effective date of this 1979 amendatory and supplementary act, all members shall contribute, as shall be determined by the actuary, exclusive of the rate for any additional death benefit provided under section 18A:66-53, at proportions of compensation intermediate between the rates previously applicable to male and to female members, provided that in order to attain such intermediate point, the adjustment of such proportions shall be the minimum necessary increase or decrease in the contributions of members of the fund as such membership is constituted on the effective date of this act.]

Members enrolled in the retirement system on or after July 1, 1994 shall contribute 5% of compensation to the system. Members enrolled in the system prior to July 1, 1994 shall contribute 5% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1995, provided, however, that any member enrolled before July 1, 1994, whose full contribution rate under the system prior to the revisions by this act was less than 6%, shall pay 4% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1995, and 5% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1996.

(cf: P.L.1979, c.106, s.6,)

[1][4.] 5.[1] Section 33 of P.L.1973, c.140 (C.43:6A-33) is amended to read as follows:

33. a. Upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall compute annually, beginning as of June 30, 1992, the amount of the 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 [, expressed as a proportion of the salaries paid to all members, which if paid monthly during the entire prospective service of the members, will be sufficient to provide for the pension reserves required at the time of the discontinuance of active service, to cover all pensions to which they may be entitled or which are payable on their account and to provide for the amount of the death benefits payable on their account, which amount is not covered by other contributions to be made as provided in this section and the funds in hand available for such benefits]. This shall be known as the "normal contribution." [The actuary shall redetermine the normal contributions for the retirement system as of June 30, 1990 and June 30, 1991.]

b. Upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall compute the amount of the [unfunded] accrued liability of the retirement system as of [June 30, 1990] June 30, 1992, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section[, and by prospective employer normal contributions and employee contributions]. Using the total amount of this unfunded accrued liability, the actuary shall [determine a rate of contribution that shall be an] compute the initial amount of contribution [divided by the compensation of all active members for the valuation period where] which, if the contribution is increased at a specific rate and paid annually for a specific period of time, [it] 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 40 years [1]on initial application of this section as amended by this act, P.L. , c. (now pending before the Legislature as this bill)[1]. [This shall be known as the "accrued liability contribution rate." The actuary shall compute annually an amount of contribution based upon the total compensation of all members in active service and the accrued liability contribution rate.] This shall be known as the "accrued liability contribution." Any [1]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[1] increase or decrease in the unfunded accrued liability as a result of actuarial [1][gains or][1] losses [1]or gains[1] 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 [1][40] 30[1] years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed [1][40] 30[1] 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 value of the assets for the valuation period ending June 30, 1990 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending June 30, 1991 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of June 30, 1991.] The value of the assets to be used in the computation of the contributions provided for under this section for [the] valuation periods [ending on or after June 30, 1992] 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.

[The tables of actuarial assumptions previously adopted by the commission for the valuation periods ending June 30, 1990 and June 30, 1991 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.), except that the assumptions for salary increases, medical premium inflation and increases in pension adjustment benefits shall be those proposed by the actuary to the retirement system in the draft revision of the annual actuarial reports for the valuation periods ending June 30, 1990 and June 30, 1991 submitted by the actuary on April 27, 1992.]

c. The actuary 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 [proportion of the earnable salary of all members, computed as described in subsection a. hereof and of the State's accrued liability contribution, payable in the ensuing year, as described in subsection b. hereof] amounts described in this section. The State shall pay into the contingent reserve fund during the ensuing year the amount so determined. [In the event the amount certified to be paid by the State includes amounts due for services rendered by members to counties, the total amount so certified shall be paid to the retirement system by the State; provided, however, the full cost attributable to such services rendered to such counties shall be computed separately by the actuary and the State shall be reimbursed for such amounts by such counties.]

The cash death benefits, payable as the result of contribution by the State under the provisions of this act upon the death of a member in active service and after retirement, shall be paid from the contingent reserve fund.

d. (Deleted by amendment, P.L.1992, c.125.)

(cf: P.L.1992, c.125, s.6)

[1][5.] 6.[1] Section 10 of P.L.1992, c.41 (C.43:6A-33.1) is amended to read as follows:

10. Pension adjustment benefits for members and beneficiaries of the Judicial Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and premiums or periodic charges which the State is required to pay for benefits provided to retired State employees and their dependents under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the retirement system [from the contingent reserve fund or other fund or trust, established under the jurisdiction of the State House Commission, which shall receive contributions only to the extent that contributions cannot otherwise be made to a section 401 (h) account due to the requirements of subsection (h) of section 401 of the federal Internal Revenue Code of 1986 (26 U.S.C.§401). Any premium payments for retired participants shall first be a charge upon such other fund or trust and only secondarily on the assets set aside under subsection (h) of section 401 of the federal Internal Revenue Code of 1986 (26 U.S.C.§401). The pension adjustment benefits and premiums for health care benefits for qualified retirees] and shall be funded

as employer obligations [in a similar manner to that] by the same method provided by law for the funding of employer obligations for the retirement benefits provided by the retirement system[. The funding shall be phased in as determined by the State House Commission after consultation with the Director of the Division of Pensions and the actuary, except that: a. the phase-in period shall begin] beginning with valuation year 1993 [and shall be 25 years, and b. any reduction in contributions from recognition of the full market value of the assets as of June 30, 1990 over the adjusted book value of the assets written up by 60% of the excess of market value over adjusted book value as of June 30, 1990 in a fashion similar to that presented in the draft revision of the annual actuarial reports for the valuation periods ending June 30, 1990 and June 30, 1991 submitted by the actuary on April 27, 1992 shall be used to accelerate the funding of the liabilities for pension adjustment and health care benefits. The State House Commission shall determine the assumed percentage rate of increase applied to the cost of providing health benefits for retirees].

(cf: P.L.1992, c.41, s.10)

[1][6.] 7.[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 [, expressed as a proportion of the compensation paid to all members, which, if paid monthly during the entire prospective service of the members, will be sufficient to provide for the pension reserves required at the time of discontinuance of active service, to cover all pensions to which they may be entitled or which are payable on their account and to provide for the amount of the death and accidental disability benefits payable on their account, and which amount is not covered by other contributions, to be made as provided in this section and the funds in hand available for such benefits]. This shall be known as the "normal contribution." [The actuary shall redetermine the normal contributions for the retirement system as of March 31, 1990 and March 31, 1991.]

b. 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 [unfunded] accrued liability of the retirement system as of [March 31, 1990] March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits [and post-retirement medical 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[, and by prospective employer normal contributions and employee contributions]. Using the total amount of this unfunded accrued liability, the actuary shall [determine a rate of contribution that shall be an] compute the initial amount of contribution [divided by the compensation of all active members for the valuation period where] which, if the contribution is increased at a specific rate and paid annually for a specific period of time, [it] 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 [1]on initial application of this section as amended by this act, P.L. , c. (now pending before the Legislature as this bill)[1]. [This shall be known as the "accrued liability contribution rate." The actuary shall compute annually an amount of contribution based upon the total compensation of all members in active service and the accrued liability contribution rate.] This shall be known as the "accrued liability contribution." Any [1]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[1] increase or decrease in the unfunded accrued liability as a result of actuarial [1][gains or][1] losses [1]or gains[1] 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 [1][40] 30[1] years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed [1][40] 30[1] 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 value of the assets for the valuation period ending March 31, 1990 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending March 31, 1991 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of March 31, 1991.] The value of the assets to be used in the computation of the contributions provided for under this section for [the] valuation periods [ending on or after March 31, 1992] 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.

[The tables of actuarial assumptions previously adopted by the board of trustees for the valuation periods ending March 31, 1990 and March 31, 1991 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.), except that the assumptions for salary increases, medical premium inflation and increases in pension adjustment benefits shall be those proposed by the actuary to the retirement system in the draft revision of the annual actuarial reports for the valuation periods ending March 31, 1990 and March 31, 1991 submitted by the actuary on April 27, 1992.]

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.1992, c.125, s.9)

[1][7.] 8.[1] Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of the Public Employees' Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and premiums or periodic charges which the State is required to pay for benefits provided to retired State employees and their dependents under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the retirement system and shall be funded as employer obligations [as provided in this section. Health care benefits for State employees and their dependents shall be funded and paid through a separate fund or trust of the retirement system in accordance with the requirements of subsection (h) of section 401 of the federal Internal Revenue Code (26 U.S.C. §401) or other fund or trust, established under the jurisdiction of the board of trustees, which shall receive contributions only to the extent that contributions cannot otherwise be made to a section 401 (h) trust due to the requirements of the federal law. Any premium payments for retired participants shall first be a charge upon such other fund or trust and only secondarily on the assets set aside under the section 401(h) trust. The pension adjustment and health care benefits for qualified retirees shall be funded as employer obligations] by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability [contribution rates] contributions for [these] pension adjustment benefits for active employees shall be determined for the [1990] 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability [contribution rates] contributions for the State [shall be 25.30% for valuation year 1990, 25.30% for valuation year 1991, and 34.50% for valuation year 1992, and for the] and other employers shall be

[82.50% for valuation year 1990, 93% for valuation year 1991, and 93%] 20% for valuation year 1992[,] and 24% for valuation year 1993, and [the level of recognition] shall be increased by [6%] 2.24% for each valuation year thereafter until the full normal and accrued liability [contributions rates] contributions are fully recognized. [The board of trustees shall determine the assumed percentage rate of increase applied to the cost of providing paid health benefits for retirees. The liability for pension adjustment benefits and for premiums or periodic charges for health care benefits for retired State employees and their dependents shall be included as a liability of the retirement system as of April 1, 1988.]

Health care benefits for retired State employees and their dependents for which the State is required to pay the premiums or periodic charges under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending March 31, 1994, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State.

(cf: P.L.1993, c.182, s.1)

[1][8.] 9.[1] Section 25 of P.L.1954, c.84 (C.43:15A-25) is amended to read as follows:

25. The annuity savings fund shall be the fund in which shall be credited accumulated deductions and contributions by members or on their behalf to provide for their allowances. A single account shall be established in this fund for each person who is or shall become a member and all contributions deducted from each such member's compensation shall be credited to his account regardless of the number of positions a member might hold or the number of employers as he might have.

[Any member who was contributing to the former "State Employees' Retirement System" shall continue to pay the proportion of compensation applicable to the age at enrollment, which proportion shall not be increased during the continuation of membership other than as provided in this section or section 58, and shall make any special payments either as lump sums or as installment payments required as a result of election by the member to obtain additional service credit. Members enrolling on and after January 2, 1955 shall contribute at the proportions applicable to group two members of the former "State Employees' Retirement System" as of June 30, 1949. No member shall be required during the continuation of his membership to increase the proportion of compensation certified at the time of becoming a member as payable by him other than as provided in this section or section 58.

As of the effective date of this amendatory and supplementary act, all members shall contribute, as shall be determined by the actuary, exclusive of the rate for any additional death benefit provided under section 57 (C.43:15A-57), at proportions of compensation intermediate between the rates previously applicable to male and to female members, provided that in order to attain such intermediate point, the adjustment of such proportions shall be the minimum necessary increase or decrease in the contributions of members of the retirement system as such membership is constituted on the effective date of this act.]

Members enrolled in the retirement system on or after July 1, 1994 shall contribute 5% of compensation to the system. Members enrolled in the system prior to July 1, 1994 shall contribute 5% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1995, provided, however, that any member enrolled before July 1, 1994, whose full contribution rate under the system prior to the revisions by this act was less than 6%, shall pay 4% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1995, and 5% of compensation to the system effective with the payroll period for which the beginning date is closest to July 1, 1996.

The retirement system shall certify to each State department or subdivision thereof, and to each branch of the State service not included in a State department, and to every other employer, the proportion of each member's compensation to be deducted and to facilitate the making of deductions the retirement system may modify the deduction required by a member by such an amount as shall not exceed 1/10 of 1% of the compensation upon the basis of which the deduction is to be made.

If payment in full, representing the monthly or biweekly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of 6% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such fifteenth day.

Every employee to whom this act applies shall be deemed to consent and agree to any deduction from his compensation required by this act and to all other provisions of this act. Notwithstanding any other law, rule or regulation affecting the salary, pay, compensation, other perquisites, or tenure of a person to whom this act applies, or shall apply, and notwithstanding that the minimum salary, pay, or compensation or other perquisites provided by law for him shall be reduced thereby, payment, less such deductions, shall be a full and complete discharge and acquittance of all claims and demands for service rendered by him during the period covered by such payment.

(cf: P.L.1979, c.106, s.3)

[1][9.] 10.[1] Section 60 of P.L.1954, c.84 (C.43:15A-60) is amended to read as follows:

60. a. Each public employee veteran member shall have returned to him his accumulated deductions as of January 2,

1955. All service rendered in office, position, or employment of this State or of a county, municipality, school district, board of education, or other public employer, or service rendered for the State University of New Jersey, an instrumentality of this State, after April 16, 1945, and the New Jersey State Agricultural Experiment Station established by an act approved March 10, 1880 (P.L.1880, c.106 and continued pursuant to chapter 16 of Title 4 of the Revised Statutes), an instrumentality of this State, excluding service rendered as county extension service farm and home demonstration agents, by such veteran member previous to January 2, 1955, for which evidence satisfactory to the retirement system is presented, shall be credited to him as a "Class B" member and the obligation of the employer on account of such credit shall be known as the accrued liability on behalf of such veteran member; provided, however, that no credit shall be allowed for such service rendered prior to January 2, 1955 unless the member purchases credit for all eligible service rendered on or after such date.

b. The accrued liability on behalf of State employee veteran members including veteran members employed by the State University of New Jersey or by the New Jersey Agricultural Experiment Station shall be paid by the State as provided in section 24. The accrued liability on behalf of other public employee veteran members shall be paid by their employers, as of January 2, 1955, or the date of the next annual valuation of the retirement system following his enrollment, whichever is later, in the same manner as provided in the case of State employee veteran members in section 24. The retirement system shall certify to the chief fiscal officer of the employer the accrued liability contribution payable by such employer on behalf of veteran members.

c. Each public employee veteran members shall make contributions to the retirement system at the rates of contribution applicable to Class B members of group two of the former "State Employees' Retirement System" as of June 30, 1949, as provided in section 25. Each public employee veteran member shall pay the proportion of compensation applicable to his age at the commencement of employment, position or office with the State, any county, municipality or school district, board of education, or other public employer except that where such service has not been continuous, the public employee veteran member shall pay the proportion of compensation applicable to the age resulting from the subtraction of his years of service from his age as of January 2, 1955. No public employee veteran member shall be required during the continuation of his membership to increase the proportion of compensation certified at the time of becoming a member as payable by him, except as provided in section 25 (C.43:15A-25) [or section 58 (C.43:15A-58)].

d. In the event that a public employee veteran who prior to January 2, 1955 rendered service in office, position or employment of this State, including such service rendered for any instrumentality enumerated in paragraph a. of this section, or of a county, municipality, or school district, board of education, or other public employer, but who is not in such office, position or employment on January 2, 1955, shall later become a member of the retirement system, such public employee veteran member shall receive prior service credit for service rendered prior to January 2, 1955, for which evidence satisfactory to the retirement system is presented, and shall pay the proportion of compensation, applicable to the age resulting from the subtraction of his years of such prior service from his age on the date of his becoming a member of the retirement system as provided in section 25 (C. 43:15A-25). The employer of such public employee veteran on the date of his becoming a member shall pay the accrued liability on behalf of such prior service, and such liability shall be paid in such a manner that the total obligation will be met within the period of time fixed for the liquidation of such accrued liability of the employer.

(cf: P.L.1979, c.106, s.4)

[1][10.] 11.[1] Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended to read as follows:

15. (1) The contributions required for the support of the retirement system shall be made by members and their employers.

(2) The uniform percentage contribution rate for members shall be 8.5% of compensation.

(3) (Deleted by amendment, P.L.1989, c.204).

(4) [Each employer shall make contributions equal to the percentage of compensation of members in its employ as certified by the board of trustees based on annual actuarial valuations. The percentage rate of contribution payable by employers shall be determined initially on the basis of the entry age normal cost method.] 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 June 30, 1991, 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." [The actuary shall redetermine the normal contributions for the retirement system as of June 30, 1989 and June 30, 1990.]

(5) (Deleted by amendment, P.L.1989, c.204).

(6) [The percentage rates of contribution payable by employers pursuant to subsection (4) of this section shall be subject to adjustment from time to time by the board of trustees with the advice of the actuary on the basis of annual actuarial valuations and experience investigations as provided under section 13, so that the value of future contributions of members and employers, when taken with present assets, shall be equal to the value of prospective benefit payments.] (Deleted by amendment, P.L. , c. (now pending before the Legislature as this bill).)

(7) Each employer shall cause to be deducted from the salary of each member the percentage of earnable compensation prescribed in subsection (2) of this section. To facilitate the making of deductions, the retirement system may modify the amount of deduction required of any member by an amount not to

exceed 1/10 of 1% of the compensation upon which the deduction is based.

(8) The deductions provided for herein shall be made notwithstanding that the minimum salary provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the deductions made and provided for herein, and payment of salary or compensation less said deduction shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the service rendered by such person during the period covered by such payment, except as to the benefits provided under this act. The chief fiscal officer of each employer shall certify to the retirement system in such manner as the retirement system may prescribe, the amounts deducted; and when deducted shall be paid into said annuity savings fund, and shall be credited to the individual account of the member from whose salary said deduction was made.

(9) 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 [unfunded] accrued liability as of [June 30, 1989] June 30, 1991 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[, and by prospective employer normal contributions and employee contributions]. Using the total amount of this unfunded accrued liability, the actuary shall [determine a rate of contribution that shall be an] compute the initial amount of contribution [divided by the compensation of all active members for the valuation period where] which, if the contribution is increased at a specific rate and paid annually for a specific period of time, [it] 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 [1]on initial application of this section as amended by this act, P.L.   , c.   (now pending before the Legislature as this bill)[1]. [This shall be known as the "accrued liability contribution rate." The actuary shall compute annually an amount of contribution based upon the total compensation of all members in active service and the accrued liability contribution rate.] This shall be known as the "accrued liability contribution." Any [1]increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any[1] increase or decrease in the unfunded accrued liability as a result of actuarial [1][gains or][1] losses [1]or gains[1] 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 [1][40] 30[1] years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed [1][40] 30[1] 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 value of the assets for the valuation period ending June 30, 1989 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending June 30, 1990 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of June 30, 1990.] The value of the assets to be used in the computation of the contributions provided for under this section for [the] valuation periods [ending on or after June 30, 1991] 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.

[The tables of actuarial assumptions previously adopted by the board of trustees for the valuation periods ending June 30, 1989 and June 30, 1990 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.), except that the assumptions for salary increases, medical premium inflation and increases in pension adjustment benefits shall be those proposed by the actuary to the retirement system in the draft revision of the annual actuarial reports for the valuation periods ending June 30, 1989 and June 30, 1990 submitted by the actuary on April 27, 1992.]

The normal and accrued liability contributions[, which] shall be certified annually by the retirement system [no later than December 31 each year,] and shall be included in the budget of the employer and levied and collected in the same manner as any other taxes are levied and collected for the payment of the salaries of members.

(10) The treasurer or corresponding officer of the employer shall pay to the State Treasurer no later than April 1 of the State's fiscal year in which payment is due the amount so certified as payable by the employer, and shall pay monthly to the State Treasurer the amount of the deductions from the salary of the members in the employ of the employer, and the State Treasurer shall credit such amount to the appropriate fund or funds, of the retirement system.

If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by this act, interest at the rate of 10% per annum shall commence to run against the unpaid balance thereof on the first day after such 30th day.

If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of

10% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such 15th day.

(11) The expenses of administration of the retirement system shall be paid by the State of New Jersey. Each employer shall reimburse the State for a proportionate share of the amount paid by the State for administrative expense. This proportion shall be computed as the number of members under the jurisdiction of such employer bears to the total number of members in the system. The pro rata share of the cost of administrative expense shall be included with the certification by the retirement system of the employer's contribution to the system.

(12) Notwithstanding anything to the contrary, the retirement system shall not be liable for the payment of any pension or other benefits on account of the employees or beneficiaries of any employer participating in the retirement system, for which reserves have not been previously created from funds, contributed by such employer or its employees for such benefits.

(13) (Deleted by amendment, P.L.1992, c.125.)

(14) Commencing with valuation year 1991, with payment to be made in Fiscal Year 1994, the Legislature shall annually appropriate and the State Treasurer shall pay into the pension accumulation fund of the retirement system an amount equal to [1][1.4%] 1.1%[1] of the compensation of the members of the system [upon which the normal contribution rate is based] for the valuation year to fund the benefits provided by section 16 of P.L.1964, c.241 (C.43:16A-11.1), as amended by P.L.1979, c.109.

(cf: P.L.1992, c.125, s.15)

[1][11.] 12.[1] Section 3 of P.L.1987, c.384 (C.52:14-17.32f) is amended to read as follows:

3. A qualified retiree from the Teachers' Pension and Annuity Fund (N.J.S.18A:66-1 et seq.) and dependents of a qualified retiree, but not including survivors, are eligible to participate in the program, regardless of whether the retiree's employer participated in the program.

A qualified retiree is a retiree who:

a. Retired on a benefit based on 25 or more years of service credit;

b. Retired on a disability pension based on fewer years of service credit; or

c. Elected deferred retirement based on 25 or more years of service credit and who receives a retirement allowance.

The program shall reimburse a qualified retiree who participates in the program for the premium charges under Part B of the federal medicare program for the retiree and the retiree's spouse. A qualified retiree who retired under subsections a. and b. of this section prior to the effective date of this 1987 amendatory and supplementary act is eligible for the coverage if the retiree applies to the program for it within one year after the effective date, and a qualified retiree as defined under subsection c. of this section whose retirement allowance commenced prior to the effective date of this 1992 amendatory act is eligible for the coverage if the retiree applies to the program for it within one year after the effective date.

The premium or periodic charges for benefits provided to a qualified retiree and the dependents of the retiree, and the cost for reimbursement of medicare premiums shall be paid by the Teachers' Pension and Annuity Fund. [The State Health Benefits Commission shall annually certify to the fund the cost for providing health benefits coverage to qualified retirees and their dependents under this section. The fund shall annually remit to the commission the amount certified at a time specified by the State Treasurer.]

(cf: P.L.1992, c.126, s.1)

[1][12.] 13.[1] Section 34 of P.L.1965, c.89 (C.53:5A-34) is amended to read as follows:

34. The Contingent Reserve Fund shall be the fund in which shall be credited contributions made by the State.

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 June 30, 1992, the amount of the 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[, expressed as a proportion of the salaries paid to all members, which, if paid monthly during the entire prospective service of the members, will be sufficient to provide for the pension reserves required at the time of the discontinuance of active service to cover all pensions to which they may be entitled or which are payable on their account and to provide for the amount of the death and accidental disability benefits payable on their account, which amount is not covered by other contributions to be made as provided in this section and the funds in hand available for such benefits]. This shall be known as the "normal contribution." [The actuary shall redetermine the normal contributions for the retirement system as of June 30, 1990 and June 30, 1991.]

b. 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 [unfunded] accrued liability of the retirement system as of [June 30, 1990] June 30, 1992, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section[, and by prospective employer normal contributions and employee contributions]. Using the total amount of this unfunded accrued liability, the actuary shall [determine a rate of contribution that shall be an] compute the initial amount of contribution [divided by the compensation of all active members for the valuation period where] which, if the contribution is increased at a specific rate and paid annually for a specific period of time, [it] 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 [1]on initial application of this section as amended by this act, P.L. , c. (now pending before the Legislature as this bill)^{1}. [This shall be known as the "accrued liability contribution rate." The actuary shall compute annually an amount of contribution based upon the total compensation of all members in active service and the accrued liability contribution rate.] This shall be known as the "accrued liability contribution." Any ^{1}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^{1} increase or decrease in the unfunded accrued liability as a result of actuarial ^{1}[gains or]^{1} losses ^{1}or gains^{1} 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 ^{1}[40] 30^{1} years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed ^{1}[40] 30^{1} 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 value of the assets for the valuation period ending June 30, 1990 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending June 30, 1991 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of June 30, 1991.] The value of the assets to be used in the computation of the contributions provided for under this section for [the] valuation periods [ending on or after June 30, 1992] 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.

[The tables of actuarial assumptions previously adopted by the board of trustees for the valuation periods ending June 30, 1990 and June 30, 1991 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.), except that the assumptions for salary increases, medical premium inflation and increases in pension adjustment benefits shall be those proposed by the actuary to the retirement system in the draft revision of the annual actuarial reports for the valuation periods ending June 30, 1990 and June 30, 1991 submitted by the actuary on April 27, 1992.

An annual employer contribution for valuation years 1990 and 1991 is not required if the actuarial value of the assets exceeds the sum of the entry-age accrued liability and the normal contribution for those valuation years.]

c. The actuary 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 [proportion of the earnable salary of all members, computed as described in subsection a. hereof and of the State's accrued liability contribution, payable in the ensuing year, as described in subsection b. hereof] amounts described in this section. The State shall pay into the Contingent Reserve Fund during the ensuing year the amount so certified. In the event the amount certified to be paid by the State includes amounts due for services rendered by members to specific instrumentalities or authorities the total amounts so certified shall be paid to the retirement system by the State; provided, however, the full cost attributable to such services rendered to such instrumentalities and authorities shall be computed separately by the actuary and the State shall be reimbursed for such amounts by such instrumentalities or authorities.

The cash death benefits, payable as the result of contribution by the State under the provisions of this act upon the death of a member in active service and after retirement shall be paid from the Contingent Reserve Fund.

(cf: P.L.1992, c.125, s.18)

[1][13.] 14.[1] Section 30 of P.L.1992, c.41 (C.53:5A-34.2) is amended to read as follows:

30. Pension adjustment benefits for members and beneficiaries of the State Police Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and premiums or periodic charges which the State is required to pay for benefits provided to retired State employees and their dependents under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the retirement system [from the contingent reserve fund or other fund or trust, established under the jurisdiction of the board of trustees, which shall receive contributions only to the extent that contributions cannot otherwise be made to a section 401 (h) account due to the requirements of subsection (h) of section 401 of the federal Internal Revenue Code of 1986 (26 U.S.C.§401). Any premium payments for retired participants shall first be a charge upon such other fund or trust and only secondarily on the assets set aside under subsection (h) of section 401 of the federal Internal Revenue Code of 1986 (26 U.S.C.§401). The pension adjustment benefits and premiums for health care benefits for qualified retirees] and shall be funded as employer obligations [in a similar manner to that] by the same method provided by law for the funding of employer obligations for the retirement benefits provided by the retirement system[. The funding shall be phased in as determined by the board of trustees after consultation with the Director of the Division of Pensions and the actuary, except that: a. the phase-in period shall begin] beginning with valuation year 1993 [and shall be 25 years, and b. any reduction in contributions from recognition of the full market value of the assets as of June 30, 1990 over the adjusted book value of the assets written up by 60% of the excess of market value over adjusted book value as of June 30, 1990 in a fashion similar to that presented in the draft revision of the annual actuarial

reports for the valuation periods ending June 30, 1990 and June 30, 1991 submitted by the actuary on April 27, 1992 shall be used to accelerate the funding of the liabilities for pension adjustment benefits and health care benefits. The board of trustees shall determine the assumed percentage rate of increase applied to the cost of providing paid health benefits for retirees].
(cf: P.L.1992, c.41, s.30)

[1][14.] 15.[1] (New section) Notwithstanding the provisions of N.J.S.18A:66-58 or any other law to the contrary, the tables of actuarial assumptions adopted by the board of trustees of the Teachers' Pension and Annuity Fund which were applicable to the actuarial valuation of the retirement system for the period ending March 31, 1992, revised as recommended by the actuary of the system based upon the results of the experience study of the system for the three-year period ending March 31, 1991, shall be the tables of actuarial assumptions for the system until the actuarial valuation for the period ending March 31, 1998, except that the impact of the revisions to the tables based upon the experience study for the three-year period ending March 31, 1991 upon the employer contributions to the system shall be phased in in equal installments over the five succeeding actuarial valuations beginning with the actuarial valuation for the period ending March 31, 1993.

[1][15.] 16.[1] (New section) Notwithstanding the provisions of subsection m. of N.J.S.18A:66-2 and N.J.S.18A:66-58, subsection n. of section 3 and section 31 of P.L.1973, c.140 (C.43:6A-3 and 31), subsection n. of section 6 and section 19 of P.L.1954, c.84 (C.43:15A-6 and 19), subsection (9) of section 1 and subsection (13) of section 13 of P.L.1944, c.255 (C.43:16A-1 and 13), and subsection p. of section 3 and section 32 of P.L.1965, c.89 (C.53:5A-3 and 32) or any other law[1][,]: a.[1] for the 1992 [1][and 1993] through 1996[1] valuation years for the Teachers' Pension and Annuity Fund, the Public Employees' Retirement System, the Judicial Retirement System and the State Police Retirement System and for the 1991 [1][and 1992] through 1995[1] valuation years for the Police and Firemen's Retirement System, the average assumed percentage rate of increase applied to salaries shall be 2.8% less than regular interest[1], and beginning with valuation year 1997 for the Teachers' Pension and Annuity Fund, the Public Employees' Retirement System, the Judicial Retirement System and the State Police Retirement System and beginning with valuation year 1996 for the Police and Fireman's Retirement System, the average assumed percentage rate of increase applied to salaries shall be reviewed and, if necessary, revised to a reasonable level determined by the respective boards of trustees, after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits, and the appropriate actuary;[1] and [1]b. for the retirement systems or funds specified in subsection a.,[1] the assumed annual rate of increase in the Consumer Price Index for pension adjustment benefits shall be 4%[1], except that if the annual rate of increase in the Consumer Price Index exceeds 4% in two consecutive valuation years, that assumed rate of increase in the Consumer Price Index shall be reviewed and, if necessary, revised to a level which

reasonably relates to the change in the Consumer Price Index by the respective boards of trustees, after consultation with the State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits, and the appropriate actuary[1].

[1][16.] 17.[1] (New section) Notwithstanding the provisions of the laws governing the Teachers' Pension and Annuity Fund, the Public Employees' Retirement System, [1]Alternate Benefit Programs,[1] the Judicial Retirement System, the Police and Firemen's Retirement System and the State Police Retirement System or any other law, the members of these retirement systems may waive the amount of noncontributory insurance to which they are entitled under the systems in excess of $50,000.

[1][17.] 18.[1] (New section) Employers other than the State under the Public Employees' Retirement System and the Police and Firemen's Retirement System shall pay to the State the original contributions determined by the actuary for the 1994 fiscal year under the law prior to the revisions under this act. The State shall pay to the respective retirement systems the contributions required for employers other than the State as a result of the revisions under this act. Any difference between the original contributions and the contributions required as a result of the revisions under this act for employers other than the State shall be retained by the State.

The contribution by each employer other than the State to the Public Employees' Retirement System and the Police and Firemen's Retirement System for the 1995 fiscal year shall be the amount which is the same proportion to the original contribution amount for each employer as determined by the actuary under the law prior to the revisions under this act, as the total revised contribution required as a result of the revisions under this act is to the total original contribution.

[1][18.] 19.[1] (New section) Notwithstanding the provisions of the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.) or any regulation of the State Health Benefits Commission under the act, no employer other than the State participating in the State Health Benefits Program, except for a participating employer which has notified the Division of Pensions and Benefits or the State Health Benefits Commission in writing prior to the effective date of this act of its intention to terminate its participation in the State Health Benefits Program, may terminate its participation in the program until July 1, 1995.

[1][19.] 20.[1] N.J.S.18A:66-67 and section 58 of P.L.1954, c.84 (C.43:15A-58) are repealed.

[1][20.] 21.[1] This act shall take effect immediately, but sections [1][3, 8 and 19] 4, 9 and 20[1] shall remain inoperative, except for new members of the retirement systems enrolled on or after July 1, 1994, until the payroll period for which the beginning date is closest to July 1, 1995.

Makes various changes regarding funding of certain retirement systems and prefunding of cost-of-living adjustments and health benefits.

revisions under this act for employers other than the State shall be retained by the State.

The contribution by each employer other than the State to the Public Employees' Retirement System and the Police and Firemen's Retirement System for the 1995 fiscal year shall be the amount which is the same proportion to the original contribution amount for each employer as determined by the actuary under the law prior to the revisions under this act, as the total revised contribution required as a result of the revisions under this act is to the total original contribution.

18. (New section) Notwithstanding the provisions of the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.) or any regulation of the State Health Benefits Commission under the act, no employer other than the State participating in the State Health Benefits Program, except for a participating employer which has notified the Division of Pensions and Benefits or the State Health Benefits Commission in writing prior to the effective date of this act of its intention to terminate its participation in the State Health Benefits Program, may terminate its participation in the program until July 1, 1995.

19. N.J.S.18A:66-67 and section 58 of P.L.1954, c.84 (C.43:15A-58) are repealed.

20. This act shall take effect immediately, but sections 3, 8 and 19 shall remain inoperative, except for new members of the retirement systems enrolled on or after July 1, 1994, until the payroll period for which the beginning date is closest to July 1, 1995.

SPONSORS' STATEMENT

The purpose of this legislation is to implement the revisions in the State pension laws which are recommended by Governor Whitman in her proposed budget as supplemented and revised pursuant to agreement with the leadership of both Houses of the Legislature. The Pension Reform Agreement provides nine revisions to the laws governing the State retirement systems and the State Health Benefits Program as follows:

1. continued prefunding of post-retirement medical benefits (PRM) for State employees under the Public Employees' Retirement System (PERS), and for teachers under the Teachers' Pension and Annuity Fund (TPAF) at a reduced level through annual contributions at the rate of .5% of payroll, plus the amount sufficient to pay the current premiums;

2. a change in the funding method for determining the employer contributions to the retirement systems from entry age normal method to the projected unit credit method, and a reset of the amortization period for the unfunded accrued liability to 40 years;

3. a change in the employee contribution rates to TPAF and PERS to a flat 5% for new employees effective July 1, 1994, and a flat 5% for current employees effective July 1, 1995, with a 1% offset for current employees whose current full contribution rate is less than 6% until July 1, 1996 (the 2% Social Security offset

would be eliminated);

4. a phase-in of the impact of revisions in the tables of actuarial assumptions under TPAF over five years;

5. reversion to the original schedule for recognition and funding of pension adjustment benefits (cost-of-living adjustments - COLA) under TPAF and PERS established by the laws which originally provided for the funding of these benefits under the retirement systems;

6. reduction of the inflation assumption for the COLA benefits for retirees for valuation years 1992 and 1993, or in the case of PFRS, valuation years 1991 and 1992 (this change is possible because the COLA increase is known for those two valuation years);

7. reduction in the salary increase assumption to 2.8% less than the regular interest rate for valuation years 1992 and 1993, or in the case of PFRS, valuation years 1991 and 1992 (this change is possible because the salary increase is known for those two valuation years);

8. authorization for the members of these retirement systems to waive noncontributory insurance benefits in excess of $50,000; and,

9. a moratorium on withdrawals by participating employers from the State Health Benefits Program (SHBP).

Makes various changes regarding funding of certain retirement systems and prefunding of cost-of-living adjustments and health benefits.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 1263

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 23, 1994

The Senate Budget and Appropriations Committee reports favorably and with committee amendments Senate Bill No. 1263.

This bill, as amended, states, in a section of legislative findings and declarations, that public pension assets must be managed and administered to maintain their value and ensure appropriate levels of return on investment; that the accumulated assets of the public pension systems and their economic enhancement exist for the benefit of the retirees and members of those systems; that the statutorily-established benefits to which they are entitled belong to the retirees; and that no present or future retirees of the pension systems shall receive any reduction in benefits as a result of the provisions of this act.

The bill, as amended:

(1) continues prefunding of post-retirement medical benefits (PRM) for State employees under the Public Employees' Retirement System, and for teachers under the Teachers' Pension and Annuity Fund at a reduced level through annual contributions at the rate of .5% of payroll, plus the amount sufficient to pay the current premiums;

(2) changes the funding method for determining the employer contributions to the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) from the entry age normal method to the projected unit credit method, and resets the amortization period for the unfunded accrued liability to an initial period not to exceed 40 years, with a 10-year transition period to a flexible 30-year amortization period;

(3) changes the employee contribution rates to TPAF and PERS to a flat 5% for new employees effective July 1, 1994, and a flat 5% for current employees effective July 1, 1995, with a 1% offset for current employees whose current full contribution rate is less than 6% until July 1, 1996 (the 2% Social Security offset would then be eliminated);

(4) phases in the impact of revisions in the tables of actuarial assumptions under TPAF over five years;

(5) reverts to the original schedule for recognition and funding of pension adjustment benefits (cost-of-living adjustments - COLA) under TPAF and PERS established by the laws which originally provided for the funding of these benefits under the retirement systems;

(6) establishes for TPAF, JRS, PERS, PFRS, and SPRS a 4% inflation assumption for the COLA benefits, except that if the actual annual rate of increase in the Consumer Price Index exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the

State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index . . . ";

(7) establishes a salary increase assumption of 2.8% less than the regular interest rate for valuation years 1992 through 1996 (or in the case of PFRS, valuation years 1991 through 1995), at which time the respective boards of trustees of the retirement systems shall review that assumed percentage rate of salary increase and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the 2.8% to a "reasonable level";

(8) authorizes the members of TPAF, JRS, PERS, PFRS, and SPRS and participants in the Alternate Benefit Program to waive noncontributory insurance benefits in excess of $50,000;

(9) establishes a moratorium on withdrawals by participating employers from the State Health Benefits Program (SHBP); and

(10) changes the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L.1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year.

This legislation implements the revisions in the State pension laws which have been recommended by Governor Whitman in her proposed budget as supplemented and revised pursuant to agreement with the leadership of both Houses of the Legislature.

COMMITTEE AMENDMENTS:

The committee amended the bill to:

(1) insert a statement of legislative findings and declarations that public pension assets must be managed and administered to maintain their value and ensure appropriate levels of return on investment; that the accumulated assets of the public pension systems and their economic enhancement exist for the benefit of the retirees and members of those systems; that the statutorily-established benefits to which they are entitled belong to said retirees; and that no present or future retirees of the pension systems shall receive any reduction in benefits as a result of the provisions of this act;

(2) provide for an initial 40-year amortization period for the unfunded accrued liability with a 10-year transition period to a flexible 30-year amortization period (during the 10-year period, any actuarial losses or gains would increase or decrease the unfunded accrued liability contribution; after that 10-year period, any such losses or gains would increase or decrease the amortization period, but in no case could the amortization period exceed 30 years);

(3) change the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L.1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year (this is possible because of the changes made by this bill, such as the changes in assumptions and the change in the method of calculating normal cost of employer contributions);

(4) extend to participants in the Alternate Benefit Program the ability to waive the amount of noncontributory insurance to which they are entitled which exceed $50,000;

(5) provide that the average assumed percentage rate of increase applied to salaries of 2.8% less than regular interest shall be applicable for five years rather than two, and that at the end of that period the respective boards of trustees of the retirement systems shall review and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise that assumed percentage rate to a "reasonable level"; and

(6) provide that the assumed annual rate of increase in the Consumer Price Index for the purpose of funding pension adjustment benefits shall be 4%, except that if the actual annual rate of increase in the C.P.I. exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index . . . " (the bill as introduced limited the 4% inflation assumption to two years).

FISCAL IMPACT:

This proposal is expected to generate $1.3 billion in savings or reduced employer contributions to fund the retirement systems over FY1994 and FY1995. Current year employer contributions would be reduced by approximately $500 million, of which approximately $135 million is in savings of local government contributions. FY1995 expenditures would be reduced by approximately $760 million.

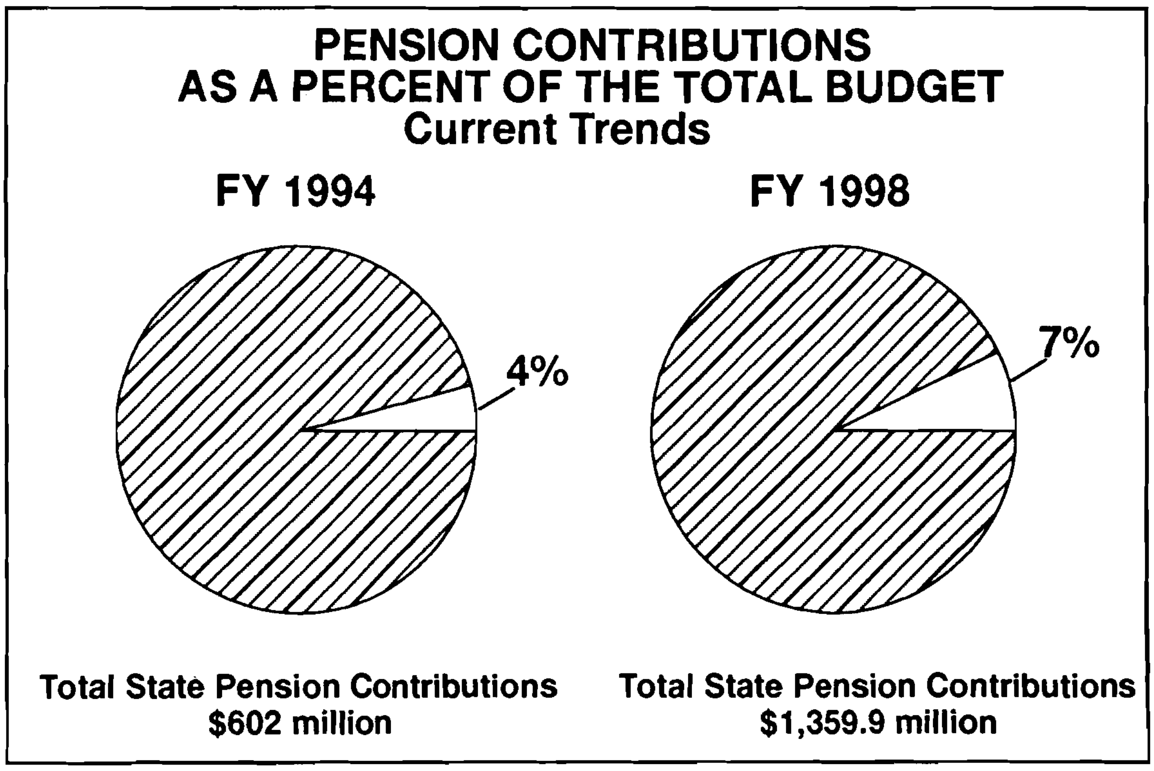
Pension System Reform

The proposed budget anticipates several changes to fund more accurately and appropriately long-term pension requirements. They are based on the following principles:

Pension System Reform Principles

- Pension and Health Benefits should not be altered
- Acturial assumptions should reflect current economic conditions
- One time savings should be avoided
- Independent actuaries should agree with reforms.

The chart belows displays the impact of pension costs on the State budget between fiscal year 1994 and fiscal year 1998 if current funding patterns continue. The obvious consequence is that more of the budget will go for pension needs, and less money will be available for services provided by the government.

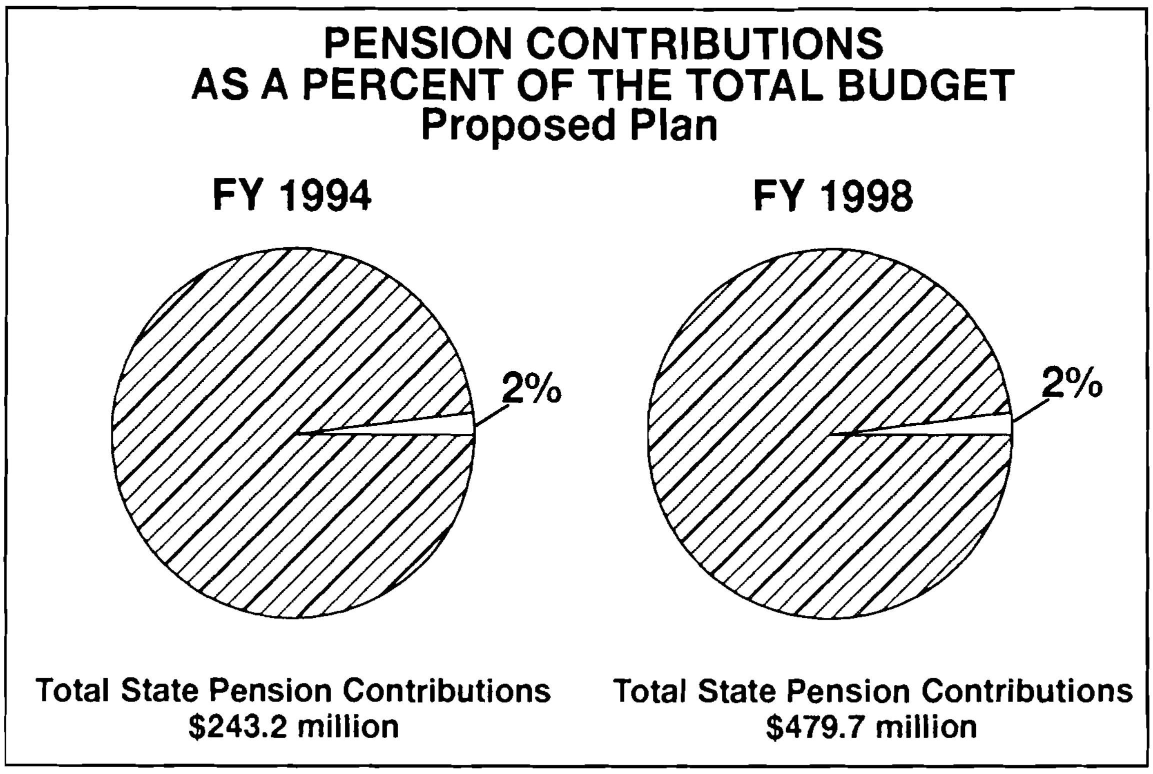


In order to address this problem six proposals will be recommended in separate legislation:

1. Eliminate pre-funding of post retirement medical benefits and switch to a pay-as-you-go method;
2. Decelerate the pre-funding of the cost-of- living adjustment;
3. Switch from the current entry age method of funding pensions to a "unit credit" method;
4. Extend the period for amortizing the unfunded liability in the pension system;
5. Extend the phase-in period for recognizing revised actuarial assumptions in the teachers' pension system;
6. Eliminate the two percent employee pension subsidy due to Social Security.

These savings reduce the fiscal year 1995 appropriations by $736 million. The savings are continuous. When measured against actuarially determined costs, the changes, would save approximately $880 million in fiscal year 1998.

As the following chart indicates, the pension changes will stabilize pension costs with respect to the overall budget.



1. Prefunding of Post Retirement Health Care Coverage

The State currently provides 100 percent of the cost of post-retirement medical (PRM) coverage for certain retired employees. In particular, a retired State employee under Public Employees Retirement System (PERS) and retired teachers and other employees of local boards of education under the Teachers' Pension and Annuity Fund (TPAF) and PERS who have completed 25 years of service or who are retired under the disability provision of these programs are covered for medical benefits after retirement. This coverage includes the cost of the sponsor provided benefits, as well as the Medicare Part B premium. For the 1995 fiscal year, the estimated annual costs per individual are as follows:

	PERS		TPAF	
Coverage	Pre 65	Post 65	Pre 65	Post 65
Single Retiree	$2,785	$1,459	$2,710	$1,445
Retiree w/Spouse	5,960	4,085	5,903	3,938
Retiree w/Family	7,093	5,154	6,902	4,857
Medicare Part B	N/A	523	N/A	523

History: State employees began to receive post-retirement medical coverage in 1972. In 1987, the decision was made to extend PRM benefits to TPAF members and to pre-fund the benefits (as well as post-retirement COLA benefits) under the retirement system. To this end, liabilities for retirees were fully recognized and were to be funded through the annual contributions. Under the 1987 package, liabilities would be fully funded by the year 2017.

The pension refinancing package, adopted effective with the 1990 valuations, changed a number of aspects of the existing funding policy. Among the changes was an acceleration of the recognition of the active employee post-retirement medical (PRM) liability. Full recognition would occur in the year 2004. However, Chapter 8, P.L. 1993 revised this schedule further. Full recognition of liability would occur by the year 2003. This schedule remains in effect today. The various accelerations have had the effect of increasing appropriations (the annual payment to the pension systems) by substantial amounts.

Proposal: Revert to pay-as-you-go funding of this benefit.

Rationale for Change: Since 1990, two very dramatic and related developments have occurred.

First, medical inflation rates have decreased dramatically from the mid-to-high teens (or more) to a level which is below six percent. In the case of the State's increases, the latest annual renewals for fiscal year 1995 show a negative impact; i.e., reduced rates for this coverage.

Health Insurance Inflation Assumptions

Valuation Year	Current Assumption	Proposed Assumption
1993	12%	8.0%
1994	12%	7.5%
1995	12%	7.0%
1996	12%	6.5%
1997	12%	6.0%
1998	12%	6.0%
1999	12%	6.0%
2000 and after	7%	6.0%

Presently only seven states prefund post- retirement medical benefit costs. Large systems that do not pre-fund medical benefit costs include, Pennsylvania, Illinois, Ohio, New York, Connecticut, Massachusetts, and Florida. The proposals will reduce appropriation needs over the next five years.

Savings:

Fiscal Year	State Budget
1994	$268 million
1995	341 million
1996	376 million
1997	306 million
1998	327 million

2. Decelerate the Prefunding of Cost-of-Living Adjustments (COLA's)

Program Description: Public pension system retirees receive annual COLAs equal to 60 percent of the change in the Consumer Price Index.

History: Beginning in 1970, annual COLA adjustments in the pensioners' benefit were instituted. These COLA benefits were paid by government employers on a pay-as-you-go basis.

Beginning with the TPAF in 1987, pre-funding of the COLA through the retirement systems was initiated. Pre-funding of COLA under the Police and Firemen's Retirement System (PFRS) was begun in 1989, and under the PERS in 1988. The pension revaluation legislation in 1992 provided for pre-funding COLA and post-retirement medical benefits for members of the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) beginning in fiscal year 1995.

To avoid dramatic increases in current pension contributions (related to the full funding of the liability) a phase-in schedule was adopted. Under TPAF, the phase-in period was initially set at 30 years beginning in 1987, and under PERS, at 25 years beginning in 1988. However, the recent pension restructuring accelerated the phase-in of the COLA liability. This, like the post retirement change, placed a substantial burden on the budget.

Proposal: Revert to the phase-in policy prior to the 1992 pension reform. The proposal will reduce appropriation needs on an ongoing basis.

Savings:

Fiscal Year	State Budget	Local Goverment
1994	$33 million	$57 million
1995	88 million	62 million
1996	53 million	67 million
1997	64 million	72 million
1998	75 million	77 million

3. The Unit Credit Funding Method

Program Description: There are a number of acceptable actuarial funding methods used in connection with the budgeting of pensions costs. These are budgeting tools — the various methods simply affect the timing of contributions.

Methods include the "entry age" funding method (the current State method) and the "unit credit" funding method (the proposed method).

The entry age method determines the liability for future service based on the value of contributions that would have been payable during an employee's entire career in order to fund his or her pension. This method calculates the annual payment as a constant percentage of his/her career earnings.

The unit credit funding method, on the other hand, funds only the year-to-year increase in liability.

Currently, the State Pension System has used the entry age system since inception. This budget proposes to change the budgeting technique to the unit credit funding method from the entry age funding method. The unit credit funding method allows for changes in actuarial assumptions to be immediately captured in contribution levels. Overall employee levels will decline in the long term. Use of the unit credit funding method will allow the State to realize savings quickly.

Savings:

Fiscal Year	StateBudget
1994	$ 54.9 million
1995	121.3 million
1996	222.3 million
1997	274.2 million
1998	314.0 million

4. Amortizing the Unfunded Liability — The 40 Year Period

Program Description: A portion of the pension system accrued liability is unfunded. These amounts are funded over a period of time. Present law allows for an amortization period of up to 40 years. Currently, the State uses 30 years. The budget proposes changing the amortization period to 40 years.

Savings:

Fiscal Year	State Budget	Local Goverment
1994	$3.7 million	$21.4 million
1995	28.1 million	22.5 million
1996	10.6 million	10.5 million
1997	11.3 million	11.2 million
1998	11.9 million	11.8 million

5. Extend Phase-in Period for Recognizing Revised TPAF Actuarial Assumptions.

Program Description: Current law mandates that every three years an experience study of each pension system occur in order to revise actuarial assumptions.

New Jersey has a history of extending the period for recognition of actuarial assumption changes. For example, there was a one-year delay and a two-year phase-in for the actuarial changes produced from the study for the period ending March 1988. Changes proposed under a current study were to be phased-in over a two-year period as well. The budget extends the two-year phase-in to five years. Appropriation needs will be reduced.

Savings:

Fiscal Year	StateBudget
1994	$ —
1995	60 million
1996	56 million
1997	40 million
1998	23 million

6. Elimination of the 2% Employee Pension Contribution Reduction Due to Social Security

Program Description: Public pension benefits were reduced by the amount of social security benefits a retiree received. This "integration" of public pension and social security benefits meant that employees would be overpaying into their pension and social security systems when compared with the benefits received. To eliminate this inequity, since 1955 New Jersey government employees (State and local government and school districts) under PERS and TPAF have received a subsidy toward their employee pension contributions for Social Security contributions up to the Social Security maximum wage base.

But, in 1966, the integration of the Social Security and Pension Systems was eliminated, meaning that state and local retirees no longer received reduced retiree benefits. However, the two percent reduction in employee pension contributions was not eliminated. No other state in the nation provides this offset without an integration of benefits.

Key Data: Value of the two percent reduction for an employee at the maximum Social Security wage.

1959:	$ 120/yr.
1966:	132/yr.
1994:	1,212/yr.

The budget proposed elimination of the pension subsidy. It will reduce appropriations on an ongoing basis.

Savings:

Fiscal Year	StateBudget
1994	$ —
1995	98 million
1996	114 million
1997	122 million
1998	130 million