43:16A-15

LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 2000 **CHAPTER:** 8
NJSA: 43:16A-15 (PFRS-Funding)
BILL NO: A2213 (Substituted for S1127)
SPONSOR(S): Blee and Kelly
DATE INTRODUCED: March 16, 2000
COMMITTEE: **ASSEMBLY:** Appropriations
SENATE: -------
AMENDED DURING PASSAGE: Yes
DATE OF PASSAGE: **ASSEMBLY:** March 27, 2000
SENATE: March 27, 2000
DATE OF APPROVAL: March 29, 2000
FOLLOWING ARE ATTACHED IF AVAILABLE:
FINAL TEXT OF BILL: First Reprint
(Amendments during passage denoted by superscript numbers)

A2213

SPONSORS STATEMENT: (Begins on page 8 of original bill) Yes
COMMITTEE STATEMENT: **ASSEMBLY**: Yes
SENATE: No
FLOOR AMENDMENT STATEMENTS: No
LEGISLATIVE FISCAL ESTIMATE: Yes

S1127

SPONSORS STATEMENT: (Begins on page 8 of original bill) Yes

Bill and Sponsors Statement identical to A2213
COMMITTEE STATEMENT: **ASSEMBLY**: No
SENATE: Yes
Identical to Assembly statement for A2213
FLOOR AMENDMENT STATEMENTS: No
LEGISLATIVE FISCAL ESTIMATE: Yes
Statement identical to Fiscal Estimate for A2213
VETO MESSAGE: No
GOVERNOR'S PRESS RELEASE ON SIGNING: Yes
FOLLOWING WERE PRINTED:
To check for circulating copies, contact New Jersey State Government Publications at the State Library (609) 278-2640 ext.103 or mailto:refdesk@njstatelib.org
REPORTS: No
HEARINGS: No
NEWSPAPER ARTICLES: Yes

"Whitman signs law funding police officer retirements" 3-30-00, Atlantic City Press, p. C1
"Towns to save millions under new pension law" 3-30-00, New York Times, p. B10

ASSEMBLY, No. 2213

STATE OF NEW JERSEY

209th LEGISLATURE

INTRODUCED MARCH 16, 2000

Sponsored by:
Assemblyman FRANCIS J. BLEE
District 2 (Atlantic)
Assemblyman JOHN V. KELLY
District 36 (Bergen, Essex and Passaic)

SYNOPSIS

Revises funding provision of PFRS; revises calculation of certain benefits.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning retirement benefits and funding of benefits under the Police and Firemen's Retirement System of New Jersey, amending P.L.1944, c.255 and repealing section 9 of P.L.1999, c.428 (C.43:16A-15.8).

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

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) 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."

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

(6) (Deleted by amendment, P.L.1994, c.62.)

(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

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

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

account of the member from whose salary said deduction was made.

(9) With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability as of 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. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1995 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. <u>Notwithstanding the first sentence of this paragraph, the percentage of the difference between the expected value and the full market value of the assets to be added to the expected value of the assets for the valuation period ending June 30, 1998 for the State shall be 100% and for other employers shall be 57%.</u>

"Excess valuation assets" means, with respect to the valuation assets allocated to the State, the valuation assets allocated to the State for a valuation period less the actuarial accrued liability of the State for the valuation period, <u>and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members employed by the State as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period,</u> if the sum is greater than zero. "Excess valuation assets" means, with respect to the valuation assets allocated to other employers, the valuation assets allocated to the other employers for a valuation period less the actuarial accrued liability of the other employers for the valuation period, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1993, c.99 for the other employers, <u>and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members employed by other employers as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period,</u> if the sum is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending June 30, 1995, the normal contributions payable by the State or by the other employers for the valuation periods ending June 30, 1995, and June 30, 1996 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

<u>If there are excess valuation assets allocated to the other employers for the valuation period ending June 30, 1998, the accrued liability contributions payable by the other employers for the valuation period ending June 30, 1997 shall be reduced to the extent possible by the excess valuation assets allocated to the other employers.</u>

If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after June 30, **[**1995**]** <u>1998</u>, the State Treasurer may reduce the normal contribution payable by the State or by other employers for the next valuation period as follows:

(1) for valuation periods ending June 30, 1996 through June 30, 2000, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending June 30, 2001, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending June 30, 2002, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after June 30, 2003, to the

extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

The normal and accrued liability contributions shall be certified annually by the retirement system 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% of the compensation of the members of the system 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.

<u>(15) If the valuation assets are insufficient to fund the normal and</u>

accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-1 et al.) as provided hereinabove, the normal and unfunded accrued liability contributions required to fund these costs for the State and other employers shall be paid by the State.
(cf: P.L.1997, c.115, s.8)

2. Section 5 of P.L.1944, c.255 (C.43:16A-5) is amended to read as follows:

5. (1) Any member in service who has attained age 55 years may retire on a service retirement allowance upon filing a written and duly executed application to the retirement system, setting forth at what time, [not less than one month] subsequent to the filing thereof, he desires to be retired. Any member in service who attains age 65 years shall be retired on a service retirement allowance forthwith on the first day of the next calendar month.

(2) Upon retirement for service a member shall receive a service retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of one-sixtieth of his [average] final compensation multiplied by the number of years of his creditable service, or 2% of his [average] final compensation multiplied by the number of years of his creditable service up to 30 plus 1% of his [average] final compensation multiplied by the number of years of creditable service over 30, or 50% of his final compensation if the member has established 20 or more years of creditable service, whichever is greater.

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

(4) Upon the receipt of proper proofs of the death of a member who has retired on a service retirement allowance, there shall be paid to his beneficiary an amount equal to one-half of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.
(cf: P.L.1999, c.428, s.2)

3. Section 9 of P.L.1999, c.428 (C.43:16A-15.8) is repealed.

4. This act shall take effect immediately.

STATEMENT

As of June 30, 1998, the full-market value of assets in the Police and Firemen's Retirement System (PFRS) was more than $15.6 billion; however, the statutorily recognized level of assets used to determine State and local government payments into the system was more than $2 billion less. This bill permits the recognition of a portion of that $2 billion by the system, as of the valuation period ending June 30, 1998 (the valuation report applicable to Fiscal Year 2001). This one-time change will recognize for the State 100 percent, and for other employers 57 percent, of the difference between the expected value of assets in the system (as defined by statute and calculated by the actuary) and the full-market value of the assets. For valuation periods ending on June 30, 1999 and thereafter, the actuarial value of assets will revert to market-related value of assets (annual recognition of 20 percent of the difference between the expected value of assets in the system and the full-market value of the assets).

If enacted on or before March 31, 2000, this bill has the practical effect of providing immediate relief to local governments and their taxpayers by eliminating approximately $45 million in payments due to the PFRS system in April of 2000 and approximately $22 million in payments due in 2001, payments local governments would otherwise have to make towards eliminating the unfunded accrued liability in the PFRS. After the partial recognition for local employers of full-market value of assets provided for in this bill, a more appropriate and prudent level of unrecognized market assets will continue to be present to protect the system in the event of market fluctuations.

In addition, this bill repeals section 9 of P.L.1999, c.428 (C.43:16A-15.8) that established a State-paid funding formula for the increased liabilities and contribution costs attributable to the increase in benefits provided by P.L.1999, c.428 (C.43:16A-1 et al.). These costs will be paid from valuation assets. The State will continue to be responsible for the normal and accrued liability costs not funded, as a result of this bill, from valuation assets if there are insufficient assets. Therefore, this bill guarantees that local employers will not be required to make payments in this, or any other year, towards the benefit enhancements provided by P.L.1999, c.428.

Finally, the bill amends a section of current law pertaining to the calculation of PFRS retirement allowances so that the provisions of that section are consistent with the intent and purpose of P.L.1999, c.428. For service retirement purposes, the bill changes the basis for calculating a member's retirement allowance from average final compensation (the average of the three highest paid years) to final compensation.

[First Reprint]

ASSEMBLY, No. 2213

STATE OF NEW JERSEY

209th LEGISLATURE

INTRODUCED MARCH 16, 2000

Sponsored by:
Assemblyman FRANCIS J. BLEE
District 2 (Atlantic)
Assemblyman JOHN V. KELLY
District 36 (Bergen, Essex and Passaic)

Co-Sponsored by:
Senators Allen, Robertson and Girgenti

SYNOPSIS

Revises funding provision of PFRS.

CURRENT VERSION OF TEXT

As reported by the Assembly Appropriations Committee on March 20, 2000, with amendments.

(Sponsorship Updated As Of: 3/28/2000)

AN ACT concerning [1]**[**retirement benefits and**]** the [1] funding of benefits under the Police and Firemen's Retirement System of New Jersey, amending P.L.1944, c.255 and repealing section 9 of P.L.1999, c.428 (C.43:16A-15.8).

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

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) 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."

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

(6) (Deleted by amendment, P.L.1994, c.62.)

(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

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

Matter underlined thus is new matter.
Matter enclosed in superscript numerals has been adopted as follows:
[1] Assembly AAP committee amendments adopted March 20, 2000.

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) With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability as of 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. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1995 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. <u>Notwithstanding the first sentence of this paragraph, the percentage of the difference between the expected value and the full market value of the assets to be added to the expected value of the assets for the valuation period ending June 30, 1998 for the State shall be 100% and for other employers shall be 57%.</u>

"Excess valuation assets" means, with respect to the valuation assets allocated to the State, the valuation assets allocated to the State for a valuation period less the actuarial accrued liability of the State for the valuation period, <u>and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members employed by the State as of the valuation period over the expected</u>

working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero. "Excess valuation assets" means, with respect to the valuation assets allocated to other employers, the valuation assets allocated to the other employers for a valuation period less the actuarial accrued liability of the other employers for the valuation period, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1993, c.99 for the other employers, and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members employed by other employers as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending June 30, 1995, the normal contributions payable by the State or by the other employers for the valuation periods ending June 30, 1995, and June 30, 1996 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

If there are excess valuation assets allocated to the other employers for the valuation period ending June 30, 1998, the accrued liability contributions payable by the other employers for the valuation period ending June 30, 1997 shall be reduced to the extent possible by the excess valuation assets allocated to the other employers.

If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after June 30, **[**1995**]** 1998, the State Treasurer may reduce the normal contribution payable by the State or by other employers for the next valuation period as follows:

(1) for valuation periods ending June 30, 1996 through June 30, 2000, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending June 30, 2001, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending June 30, 2002, to the extent possible by up to 68% of the excess valuation assets allocated to the

State or to the other employers, respectively; and

(4) for valuation periods ending on or after June 30, 2003, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

The normal and accrued liability contributions shall be certified annually by the retirement system 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% of the compensation of the members of the system 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.

(15) If the valuation assets are insufficient to fund the normal and accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-1 et al.) as provided hereinabove, the normal and unfunded accrued liability contributions required to fund these costs for the State and other employers shall be paid by the State.

(cf: P.L.1997, c.115, s.8)

[1][2. Section 5 of P.L.1944, c.255 (C.43:16A-5) is amended to read as follows:

5. (1) Any member in service who has attained age 55 years may retire on a service retirement allowance upon filing a written and duly executed application to the retirement system, setting forth at what time, [not less than one month] subsequent to the filing thereof, he desires to be retired. Any member in service who attains age 65 years shall be retired on a service retirement allowance forthwith on the first day of the next calendar month.

(2) Upon retirement for service a member shall receive a service retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of one-sixtieth of his [average] final compensation multiplied by the number of years of his creditable service, or 2% of his [average] final compensation multiplied by the number of years of his creditable service up to 30 plus 1% of his [average] final compensation multiplied by the number of years of creditable service over 30, or 50% of his final compensation if the member has established 20 or more years of creditable service, whichever is greater.

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

(4) Upon the receipt of proper proofs of the death of a member who has retired on a service retirement allowance, there shall be paid to his beneficiary an amount equal to one-half of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

(cf: P.L.1999, c.428, s.2)][1]

[1][3.] 2.[1] Section 9 of P.L.1999, c.428 (C.43:16A-15.8) is repealed.

[1][4.] 3.[1] This act shall take effect immediately.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2213

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: MARCH 20, 2000

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2213 with committee amendments.

Assembly Bill No. 2213, as amended, permits the recognition of a portion of $2 billion of assets by the Police and Firemen's Retirement System (PFRS), as of the valuation period ending June 30, 1998 (the valuation report applicable to Fiscal Year 2001). This one-time change will recognize for the State 100 percent, and for other employers 57 percent, of the difference between the expected value of assets in the system (as defined by statute and calculated by the actuary) and the full-market value of the assets. For valuation periods ending on June 30, 1999 and thereafter, the actuarial value of assets will revert to market-related value of assets (annual recognition of 20 percent of the difference between the expected value of assets in the system and the full-market value of the assets).

In addition, this bill repeals section 9 of P.L.1999, c.428 (C.43:16A-15.8) that established a State-paid funding formula for the increased liabilities and contribution costs attributable to the increase in benefits provided by P.L.1999, c.428 (C.43:16A-1 et al.). These costs will be paid from valuation assets. The State will continue to be responsible for the normal and accrued liability costs not funded, as a result of this bill, from valuation assets if there are insufficient assets. Therefore, this bill guarantees that local employers will not be required to make payments in this, or any other year, towards the benefit enhancements provided by P.L.1999, c.428.

FISCAL IMPACT:

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2213. If enacted on or before March 31, 2000, this bill has the effect of providing immediate relief to local governments and their taxpayers by eliminating approximately $45 million in payments due to the PFRS system in April, 2000 and approximately $22 million in payments due in 2001, payments local governments would otherwise have to make towards eliminating the unfunded accrued liability in the PFRS. After the partial recognition for local employers of full-market value of assets provided for in this bill, a more appropriate and prudent level of unrecognized market assets will continue to be present to protect the system in the event of market fluctuations.

Also, the State should save $52 million in FY 2001 and $55.1 million in FY 2002 in PFRS contributions previously required to fund enhanced benefits pursuant to P.L.1999, c.428 which is to be repealed under this legislation.

COMMITTEE AMENDMENTS:

The amendments delete a provision that would have, for service retirement purposes, changed the basis of calculating a member's retirement allowance from average final compensation (the average of the three highest paid years) to final compensation.

§2 - Repealer

P.L. 2000, CHAPTER 8, ***approved March 29, 2000***
Assembly, No. 2213 ***(First Reprint)***

AN ACT concerning [1][retirement benefits and] the[1] funding of benefits under the Police and Firemen's Retirement System of New Jersey, amending P.L.1944, c.255 and repealing section 9 of P.L.1999, c.428 (C.43:16A-15.8).

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

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) 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."

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

(6) (Deleted by amendment, P.L.1994, c.62.)

(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

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

Matter underlined thus is new matter.
Matter enclosed in superscript numerals has been adopted as follows:
[1] Assembly AAP committee amendments adopted March 20, 2000.

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) With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability as of 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. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1995 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. <u>Notwithstanding the first sentence of this paragraph, the percentage of the difference between the expected value and the full market value of the assets to be added to the expected value of the assets for the valuation period ending June 30, 1998 for the State shall be 100% and for other employers shall be 57%.</u>

"Excess valuation assets" means, with respect to the valuation assets allocated to the State, the valuation assets allocated to the State for a valuation period less the actuarial accrued liability of the State for the valuation period, <u>and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members</u>

employed by the State as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero. "Excess valuation assets" means, with respect to the valuation assets allocated to other employers, the valuation assets allocated to the other employers for a valuation period less the actuarial accrued liability of the other employers for the valuation period, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1993, c.99 for the other employers, and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-1 et al.) payable on behalf of the active members employed by other employers as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending June 30, 1995, the normal contributions payable by the State or by the other employers for the valuation periods ending June 30, 1995, and June 30, 1996 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

If there are excess valuation assets allocated to the other employers for the valuation period ending June 30, 1998, the accrued liability contributions payable by the other employers for the valuation period ending June 30, 1997 shall be reduced to the extent possible by the excess valuation assets allocated to the other employers.

If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after June 30, [1995] 1998, the State Treasurer may reduce the normal contribution payable by the State or by other employers for the next valuation period as follows:

(1) for valuation periods ending June 30, 1996 through June 30, 2000, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending June 30, 2001, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending June 30, 2002, to the extent

possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after June 30, 2003, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

The normal and accrued liability contributions shall be certified annually by the retirement system 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% of the compensation of the members of the system 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.

(15) If the valuation assets are insufficient to fund the normal and accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-1 et al.) as provided hereinabove, the normal and unfunded accrued liability contributions required to fund these costs for the State and other employers shall be paid by the State.

(cf: P.L.1997, c.115, s.8)

[1][2. Section 5 of P.L.1944, c.255 (C.43:16A-5) is amended to read as follows:

5. (1) Any member in service who has attained age 55 years may retire on a service retirement allowance upon filing a written and duly executed application to the retirement system, setting forth at what time, [not less than one month] subsequent to the filing thereof, he desires to be retired. Any member in service who attains age 65 years shall be retired on a service retirement allowance forthwith on the first day of the next calendar month.

(2) Upon retirement for service a member shall receive a service retirement allowance which shall consist of:

(a) An annuity which shall be the actuarial equivalent of his aggregate contributions and

(b) A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of one-sixtieth of his [average] final compensation multiplied by the number of years of his creditable service, or 2% of his [average] final compensation multiplied by the number of years of his creditable service up to 30 plus 1% of his [average] final compensation multiplied by the number of years of creditable service over 30, or 50% of his final compensation if the member has established 20 or more years of creditable service, whichever is greater.

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

(4) Upon the receipt of proper proofs of the death of a member who has retired on a service retirement allowance, there shall be paid to his beneficiary an amount equal to one-half of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

(cf: P.L.1999, c.428, s.2)][1]

[1][3.] 2.[1] Section 9 of P.L.1999, c.428 (C.43:16A-15.8) is repealed.

[1]**[**4.**]** 3.[1] This act shall take effect immediately.

Revises funding provision of PFRS.

FISCAL NOTE
ASSEMBLY, No. 2213
STATE OF NEW JERSEY
209th LEGISLATURE

DATED: APRIL 5, 2000

SUMMARY

Synopsis: Revises funding provision of Police and Firemen's Retirement System; revises calculation of certain benefits.

Type of Impact: An expenditure reduction in FY 2000, 2001, and 2002 will be achieved through revaluing pension system assets.

Agencies Affected: State and local employers of police and firefighters.

Executive Estimate

Fiscal Impact	Fiscal 2000	Fiscal 2001	Fiscal 2002
State Expenditure Reduction (General Fund)	n/a	$52 million in PFRS contributions previously required to fund enhanced benefits from P.L.1999, c.428.	$55.1 million
Local Expenditure Reduction	$44.8 million in unfunded liability contributions.	$22.3 million	to be determined by actuary

! The Office of Legislative Services **concurs** with the Executive Estimate.

! Revalues the State and local assets of the Police and Firemen's Retirement System (PFRS) to recognize recent investment performance of system assets.

! Allows the application of excess valuation assets (difference between market and expected value of assets) to fund State and local system liabilities, including liabilities resulting from P.L. 1999, c. 428, which enhanced PFRS benefits.

! Allows $45 million in excess assets to be applied to eliminate local employers' unfunded liability payments due in April, 2000.

! Repeals the requirement that the State pay all costs applicable to P.L.1999, c.428, and allows excess local pension assets to be applied to offset these costs. Costs not covered by excess assets would be payable by the State.

Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, New Jersey 08625

Legislative Budget and Finance Office
Phone (609) 292-8030
Fax (609) 777-2442
www.njleg.state.nj.us

BILL DESCRIPTION

Assembly Bill No. 2213 of 2000 directs that assets of the Police and Firemen's Retirement System (PFRS) be revalued as of June 30, 1998 to recognize investment performance on system assets. The bill provides for immediate recognition of 100 percent of the June 30, 1998 market value of assets invested on behalf of State employees enrolled in PFRS and the recognition of 57 percent of the difference between market and expected value of assets invested on behalf of local employees. (Current law allows a recognition of 20 percent of the difference each year.) These newly recognized "excess valuation assets" would completely offset certain liabilities of the system which would otherwise require annual payments by State and local employers, beginning in FY 2000 (see chart on p.3).

P.L.1999, c.428 enhanced retirement benefits for members of PFRS, and required the State to pay the costs for these enhanced benefits through a complex calculation. This bill repeals the section of Chapter 428 that requires the State to pay these costs up-front, and applies $475 million of excess valuation assets to offset this liability; 82 percent of these excess valuation assets are from the local share of the system. If excess assets are not adequate to fund all of the present and future costs related to Chapter 428, the bill compels the State to assume responsibility for any necessary payments.

The bill also applies the remaining excess valuation assets to fund unfunded liabilities for local employers and to offset normal costs for State employers as described in the Fiscal Analysis.

Assembly Bill No. 2213 also includes a technical amendment to clarify that service retirement benefits for members of PFRS will calculated based on final compensation rather than average final compensation. This change is consistent with other retirement calculations in the law, enacted through P.L.1999, c.428.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The fiscal note provided by the Executive Branch for Chapter 428 estimated that a State payment of $52 million would be required in fiscal year 2001 and $55.1 and $58.4 would be required in fiscal years 2002, and 2003, respectively, in order to fund the costs of the enhanced benefits provided by the legislation. Because these payments would no longer be required, State expenditures over the next three fiscal years will be reduced by these amounts.

The Department of Treasury, Division of Pensions and Benefits has estimated that Assembly Bill No. 2213, by revaluing the assets of PFRS as of June 30, 1998, will provide $145.1 million in excess State valuation assets and $865.6 million in excess local valuation assets. These assets will be used to fund unfunded liabilities of the system and the additional costs of P.L.1999, c.428, as shown in the following chart.

Calculation of PFRS Revaluation and Application of Excess Assets
Assembly Bill 2213
(Assets and Costs in $)

	Calculation of Excess Assets:	**State Members**	**Local Members**
A	Market Value of Assets - 6/98	1,557,646,839	14,071,408,823
B	Expected Value of Assets - 6/98	1,376,240,772	11,702,890,124
C=A-B	Excess Valuation Assets	181,406,067	2,368,518,699
D	Portion of Excess Valuation Assets Available to Offset Costs or Liabilities (Note that 20% is already recognized under current law)	100% - 20% =80%	56.55% - 20% =36.55%
E=DxC	Available Excess Valuation Assets per A-2213	145,124,854	865,611,485
F	Other Available Excess Assets from 20% recognition under current law	36,281,213	0
G=E+F	Total Available Excess Assets	181,406,067	865,611,485
	Application of Assets (E):		
H	Eliminate System Unfunded Liability, including FY 2000.	n/a	475,040,279
I	Eliminate P.L. 1999, c. 428 Liability	84,269,525	390,571,206
J	Offset Normal Cost for FY 2001	79,479,062	0
G-H-I-J	Remaining Excess Valuation Assets	17,657,480	0

Sources: *State Department of Treasury, Division of Pensions and Benefits*
The Police and Firemen's Retirement System, Annual Report, July 1, 1998

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services concurs with the Executive Branch analysis, but points out that this bill does not eliminate or reduce the liabilities associated with Chapter 428 benefits; it only changes the method of paying for these benefits.

Section: *State Government*

Analyst: *Julie M. McDonnell*
Senior Fiscal Analyst

Approved: *Alan R. Kooney*
Legislative Budget and Finance Officer

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

CHAPTER 8

AN **ACT** concerning the funding of benefits under the Police and Firemen's Retirement System of New Jersey, amending P.L.1944, c.255 and repealing section 9 of P.L.1999, c.428 (C.43:16A-15.8).

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

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

C.43:16A-15 Contributions; expenses of adminstration.

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) 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."

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

(6) (Deleted by amendment, P.L.1994, c.62.)

(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) With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability as of 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. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1995 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the "Pension Bond Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. Notwithstanding the first sentence of this paragraph, the percentage of the difference between the expected value and the full market value of the assets to be added to the expected value of the assets for the valuation period ending June 30, 1998 for the State shall be 100% and for other employers shall be 57%.

"Excess valuation assets" means, with respect to the valuation assets allocated to the State, the valuation assets allocated to the State for a valuation period less the actuarial accrued liability of the State for the valuation period, and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-15.8 et al.) payable on behalf of the active members employed by the State as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero. "Excess valuation assets" means, with respect to the valuation assets allocated to other employers, the valuation assets allocated to the other employers for a valuation period less the actuarial accrued liability of the other employers for the valuation period, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1993, c.99 for the other employers, and beginning with the valuation period ending June 30, 1998, less the present value of the expected additional normal cost contributions attributable to the provisions of P.L.1999, c.428 (C.43:16A-15.8 et al.) payable on behalf of the active members employed by other employers as of the valuation period over the expected working lives of the active members in accordance with the tables of actuarial assumptions applicable to the valuation period, if the sum is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending June 30, 1995, the normal contributions payable by the State or by the other employers for the valuation periods ending June 30, 1995, and June 30, 1996 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

If there are excess valuation assets allocated to the other employers for the valuation period ending June 30, 1998, the accrued liability contributions payable by the other employers for the valuation period ending June 30, 1997 shall be reduced to the extent possible by the excess valuation assets allocated to the other employers.

If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after June 30, 1998, the State Treasurer may reduce the normal contribution payable by the State or by other employers for the next valuation period as follows:

(1) for valuation periods ending June 30, 1996 through June 30, 2000, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending June 30, 2001, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending June 30, 2002, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after June 30, 2003, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

The normal and accrued liability contributions shall be certified annually by the retirement system 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% of the compensation of the members of the system 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.

(15) If the valuation assets are insufficient to fund the normal and accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-15.8 et al.) as provided hereinabove, the normal and unfunded accrued liability contributions required to fund these costs for the State and other employers shall be paid by the State.

Repealer.

2. Section 9 of P.L.1999, c.428 (C.43:16A-15.8) is repealed.

3. This act shall take effect immediately.

Approved March 29, 2000.

PO BOX 004
TRENTON, NJ 08625

Office of the Governor
NEWS RELEASE

CONTACT: Jayne O'Connor
Gene Herman
609-777-2600

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GOVERNOR SIGNS LEGISLATION SAVING TAXPAYERS $67 MILLION BY ELIMINATING PAYMENTS FOR NEW BENEFITS FOR POLICE AND FIREFIGHTERS

Gov. Christie Whitman today signed legislation that will save New Jersey taxpayers approximately $45 million this year and $22 million next year by eliminating the need for special payments into the Police and Firemen's Retirement System (PFRS) to pay for pension benefits for police and firefighters and their dependents.

The legislation, A-2213, allocates $36.7 million to cities and towns and $8.09 million to counties this year to cover in part the cost of providing the new benefits, which were granted under legislation signed by Gov. Whitman on January 18. The January legislation gave uniform police and firefighters the option of retiring after 20 years of service regardless of age at half pay, and provided benefits for their dependents.

"As I announced earlier this year, the crime rate continues to drop. We haven't had a crime rate this low in more than a quarter-century. This is truly remarkable, and it's a tribute to our police officers," the Governor said in an address at the New Jersey State Policemen's Benevolent Association Mini-Convention in Atlantic City.

"Words alone aren't enough to show police officers that we appreciate all that they do. Words alone aren't enough to recognize that this is dangerous work. That's why I was pleased to take actions to properly reward police officers' efforts through a more generous Police and Firemen's Retirement System," she said.

"The new law now recognizes the stress that can come with this career by permitting all police officers the option of early retirement through the 20-and-out benefit at half-pay. Perhaps the most important thing this legislation achieves is one I wish will never have to be invoked: namely, expanding the eligibility for a pension benefit for the spouse and children of a police officer who dies while on active service," Gov. Whitman said.

"These changes will ensure that members of the Police and Firemen's Retirement System achieve benefit equity with members of the State Police," she said.

"New Jersey is one family with many faces. Our police officers keep our family safe, and keep our family secure. I will always be grateful. As long as I am governor, I will continue to look for ways to support New Jersey's police officers in every way I can. The competence and dedication of our police officers is one of the reasons New Jersey is such a great place to live, work and raise a family," the Governor said.

The Governor said in addition to saving taxpayers $45 million this year and $22 million next year, **A-2213** will eliminate the need for the state to make special payment into PFRS for the 20-and-out benefits. Also, she said, the legislation will completely eliminate the unfunded liability in the PFRS.

The bill, which calls for using a portion of the surplus in PFRS to provide the aid to municipalities and counties, was sponsored by Assembly Members Francis J. Blee (R-Atlantic) and John V. Kelly (R-Bergen/Essex/Passaic), and Senators Diane B. Allen (R-Burlington/ Camden) and Norman M. Robertson (R-Essex/Passaic).