18A:66-16

LEGISLATIVE HISTORY CHECKLIST

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NJSA: 18A:66-16 (TPAF & PERS—calculation revised)

BILL NO: S2450 (Substituted for A3506)

SPONSOR(S): Inverso and Matheussen

DATE INTRODUCED: May 24, 2001

COMMITTEE: **ASSEMBLY:** ----

SENATE: State Government; Budget

AMENDED DURING PASSAGE: No

DATE OF PASSAGE: **ASSEMBLY:** June 28, 2001

SENATE: June 28, 2001

DATE OF APPROVAL: June 29, 2001

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S2450

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COMMITTEE STATEMENT: **ASSEMBLY**: No

SENATE: Yes 6/25/2001 (Budget)

6/14/2001 (State Govt.)

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL NOTE: Yes

A3506

SPONSORS STATEMENT: (Begins on page 2 of original bill) Yes

Bill and Sponsors Statement identical to S2450

COMMITTEE STATEMENT: **ASSEMBLY**: Yes 5/21/2001 (State Govt.)

6/21/2001 (Approp.)

SENATE: No

FLOOR AMENDMENT STATEMENTS: No

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NEWSPAPER ARTICLES: Yes

"Pension bill signed for teachers, workers," 6-30-2001 Home News, p.A3

"State raising pensions 9% for teachers and others," 7-3-2001 Star Ledger, p.23

SENATE, No. 2450

STATE OF NEW JERSEY

209th LEGISLATURE

INTRODUCED MAY 24, 2001

Sponsored by:
Senator PETER A. INVERSO
District 14 (Mercer and Middlesex)
Senator JOHN J. MATHEUSSEN
District 4 (Camden and Gloucester)

Co-Sponsored by:
Senators Cafiero, Allen, Zane, Singer, Robertson, Palaia, Bark, Vitale, Bennett, Connors, Littell, Furnari, Turner, Kavanaugh, Kosco, Bucco, Adler, Kenny, James, Ciesla, Baer, Bryant, Girgenti, Assemblymen Asselta, Azzolina, Geist, Corodemus, DiGaetano, Assemblywoman Farragher, Assemblymen Felice, Gibson, Assemblywoman Heck, Assemblymen Holzapfel, T.Smith, Thompson, Wolfe, Zecker, Assemblywoman Greenstein, Assemblymen Guear, Kean, R.Smith, Assemblywoman Vandervalk, Assemblyman Arnone, Assemblywoman Weinberg, Assemblymen Barnes, Kelly, Zisa, Conaway, Conners, Assemblywoman Buono, Assemblymen Cottrell, Gusciora, Assemblywoman Watson Coleman, Assemblymen Garcia, Malone, Sires and Wisniewski

SYNOPSIS

Increases TPAF and PERS retirement benefits for active members and retirees; revises calculation of assets and establishes benefit enhancement fund.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 6/29/2001)

AN ACT concerning retirement benefits and the funding of benefits under the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System of New Jersey, and amending and supplementing N.J.S.18A:66-1 et seq. and P.L.1954, c.84.

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

1. N.J.S.18A:66-16 is amended to read as follows:

18A:66-16. There shall be in the retirement system the contingent reserve fund, annuity savings fund, retirement reserve fund, pension fund, special reserve fund, interest fund, <u>benefit enhancement fund</u> and the members' death benefit fund.

(cf: N.J.S.18A:66-16)

2. 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. This shall be known as the "normal contribution."

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 annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, including the liability for pension adjustment 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. 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

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

actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and 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 valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.</u>

"Excess valuation assets" for a valuation period means:

(1) the valuation assets; less

(2) the actuarial accrued liability for basic benefits and pension adjustment benefits, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.231 and P.L.1993, c.163 for employers other than the State; less

(3) the contributory group insurance premium fund created by N.J.S.18A:66-77; less

(4) the post-retirement medical premium fund created pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section 3 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits as originally authorized by section 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets for the valuation period ending March 31, 1996, the normal contributions for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that 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, and provided further that the normal contribution for the valuation period ending March 31, 1996 shall not be less than $54,000,000. If there are excess valuation assets for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

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

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets;

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under N.J.S.18A:66-29 shall be reduced by 1/2 of 1% from excess valuation assets. For calendar years 2000 and 2001, the rate of contribution of members of the retirement system shall be reduced equally with normal contributions to the extent possible, but not more than 1/2 of 1%, from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than [1/2 of 1%] 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State for the fiscal year beginning immediately prior to the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30,1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L. , c. (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under N.J.S.18A:66-25.

The normal contribution for the increased benefits for active members under P.L. , c. (now pending before Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.

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.1997, c.115, s.1)

3. N.J.S.18A:66-25 is amended to read as follows:

18A:66-25. The board of trustees at the end of each fiscal year shall allow interest on the balance of the contingent reserve fund, the annuity savings fund, the retirement reserve fund, pension fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable

thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.
(cf: N.J.S.18A:66-25)

4. N.J.S.18A:66-36 is amended to read as follows:

18A:66-36. Should a member of the Teachers' Pension and Annuity Fund, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for conduct unbecoming a teacher or other just cause under the provisions of sections 18A:28-4 to 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect to receive, in lieu of the payment provided in section 18A:66-34:

a. The payments provided for in section 18A:66-37, if he so qualified under said section; or

b. A deferred retirement allowance beginning at age 60, which shall be made up of an annuity derived from the member's accumulated deductions at the time of his severance from the service, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as class B service, calculated in accordance with section 18A:66-44, with optional privileges provided for in section 18A:66-47 if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided, further, that such member may later elect: (1) to receive the payments provided for in section 18A:66-37, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 18A:66-47, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 18A:66-34. If such member shall die before attaining service retirement age, then his accumulated deductions, plus regular interest after January 1, 1956, shall be paid in accordance with section 18A:66-38, and, in addition if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service shall be paid to such member's beneficiary.

Any member who, having elected to receive a deferred retirement allowance, again becomes an employee covered by the retirement system while under the age of 60, shall thereupon be reenrolled. If he had discontinued his service for more than 2 consecutive years, subsequent contributions shall be at a rate applicable to the age resulting from the subtraction of his years of creditable service at the time of his last discontinuance of contributing membership from his age at the time of his return to service. He shall be credited with all service as a member standing to his credit at the time of his election to receive a deferred retirement allowance.
(cf: P.L.1981, c.177, s.1)

5. N.J.S.18A:66-37 is amended to read as follows:

18A:66-37. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in N.J.S.18A:66-34, an annuity which is the actuarial equivalent of his accumulated deductions and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of **[**1/70**]** <u>1/64</u> of his final compensation for each year of service credited as class A service and **[**1/60**]** <u>1/55</u> of his final compensation for each year of service credited as class B service, calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.
(cf: P.L.1995, c.410, s.1)

6. N.J.S.18A:66-44 is amended to read as follows:

18A:66-44. A member, upon retirement for service, shall receive a retirement allowance consisting of:

(a) an annuity which shall be the actuarial equivalent of his accumulated deductions, together with interest after January 1, 1956, less any excess contributions as provided in N.J.S.18A:66-20; and

(b) a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of **[**1/70**]** <u>1/64</u> of his final compensation for each year of service credited as class A service and [1/60] 1/55 of his final compensation for each year of service credited as class B service.

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 the member's beneficiary, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.
(cf: P.L.1995, c.410, s.4)

7. N.J.S.18A:66-71 is amended to read as follows:

18A:66-71. a. Any public employee veteran member in office, position or employment of this State or of a county, municipality, or school district, board of education or other employer who (1) has or shall have attained the age of 60 years and has or shall have been for 20 years continuously or in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer, or (2) has or shall have attained the age of 55 years and has or shall have been for 25 years continuously or in the aggregate in that office, position or employment, shall have the privilege of retiring for service and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-44, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

b. (Deleted by amendment, P.L.1984, c.69.)

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer as of January 1, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-41, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in N.J.S.18A:66-39 and N.J.S.18A:66-40.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, school district, board of education or other employer and who shall have attained [60] 55 years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of [one-sixtieth] 1/55 of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in N.J.S.18A:66-44 shall apply in the case of any member retiring under the provisions of subsections a. and d. of this section and in the case of any member who has previously retired under the provisions of subsection b. of this section before said subsection was amended by this act. The death benefit provided in N.J.S.18A:66-41 shall apply in the case of any member retiring under the provisions of subsection c. of this section.

f. A member who purchases service credit pursuant to any provision of the "Teachers' Pension and Annuity Fund Law" (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose of satisfying any of the service requirements of that act.

(cf: P.L.1995, c.332, s.1)

8. Section 22 of P.L. 1954, c.84 (C.43:15A-22) is amended to read as follows:

22. Under this act there shall be the contingent reserve fund, annuity savings fund, retirement reserve fund, <u>benefit enhancement fund</u> and the special reserve fund.

(cf: P.L.1963, c.51, s.1)

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

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

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

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the "Pension Bond Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. [Notwithstanding the first sentence of this paragraph, the amount 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, 1999 shall include an additional amount of the market value of the assets sufficient to fund the unfunded accrued liability for the supplementary "special" retirement allowances provided under section 4 of P.L.2001, c.4 (C.43:15A-100.1).] <u>Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.</u>

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

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

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

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

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

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal

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

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

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

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

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

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

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

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

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets allocated to the

State or to the other employers, respectively;

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

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

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

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30, 1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L. , c. (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under section 33 of P.L.1954, c.84 (C.43:15A-33).

The normal contribution for the increased benefits for active employees under P.L. , c. (now pending before the Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal

<u>contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.</u>

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.2001, c.4, s.5)

10. Section 33 of P.L.1954, c.84 (C.43:15A-33) is amended to read as follows:

33. The board of trustees at the end of each fiscal year shall allow interest on the balance of the annuity savings fund, contingent reserve fund, the retirement reserve fund<u>, benefit enhancement fund</u> and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

(cf: P.L.1954, c.244, s.5)

11. Section 38 of P.L.1954, c.84 (C.43:15A-38) is amended to read as follows:

38. Should a member of the Public Employees' Retirement System, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for cause on charges of misconduct or delinquency, such person may elect to receive:

(a) The payments provided for in section 41b. of this act, if he so qualifies under said section, or;

(b) A deferred retirement allowance, beginning at the retirement age, which shall be made up of an annuity derived from the accumulated deductions standing to the credit of the individual member's account in the annuity savings fund at the time of his severance from the service together with regular interest, and a pension which when added to the annuity will produce a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 of this act, with optional privileges provided for in section 50 of this act if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided further, that such member, as referred to in this subsection may later elect: (1) to receive the payments provided for in section 41b. of this act, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 50, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 41a. If such member shall die before attaining service retirement age then his accumulated deductions, plus regular interest, shall be paid in accordance with section 41c.; or if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation received by the member in the last year of creditable service shall be paid to such person, if living, as he shall have nominated by written designation duly executed and filed with the retirement system; otherwise to the executor or administrator of the member's estate.

(cf: P.L.1981, c.177, s.4)

12. Section 41 of P.L.1954, c.84 (C.43:15A-41) is amended to read as follows:

41. a. A member who withdraws from service or ceases to be an employee for any cause other than death or retirement shall, upon the filing of an application therefor, receive all of his accumulated deductions standing to the credit of his individual account in the annuity savings fund, plus regular interest, less any outstanding loan, except that for any period after June 30, 1944, the interest payable shall be such proportion of the interest determined at the regular rate of 2% per annum bears to the regular rate of interest, and except that no interest shall be payable in the case of a member who has less than three years of membership credit for which he has made contributions. He shall cease to be a member two years from the date he discontinued service as an eligible employee, or, if prior thereto, upon payment to him of his accumulated deductions. If any such person or member shall die before withdrawing or before endorsing the check constituting the return of his accumulated deductions, such deductions shall be paid to the member's beneficiary. No member shall be entitled to withdraw the amounts contributed by his employer covering his military leave unless he shall have returned to the payroll and contributed to the retirement system for a period of 90 days.

b. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in subsection a. of this section, an annuity which is the actuarial equivalent of his accumulated deductions together with regular interest, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of **[**one-seventieth**]** <u>1/64</u> of his final compensation for each year of service credited as Class A service and **[**one-sixtieth**]** <u>1/55</u> of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 (C. 43:15A-48) of this act, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to three-sixteenths of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

c. Upon the receipt of proper proofs of the death of a member in service on account of which no accidental death benefit is payable under section 49 there shall be paid to such member's beneficiary:

(1) The member's accumulated deductions at the time of death together with regular interest; and

(2) An amount equal to one and one-half times 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.1987, c.1, s.1)

13. Section 48 of P.L.1954, c.84 (C.43:15A-48) is amended to read as follows:

48. A member, upon retirement for service, shall receive a retirement allowance consisting of:

a. An annuity which shall be the actuarial equivalent of his accumulated deductions together with regular interest; and

b. A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of **[**1/70**]** <u>1/64</u> of his final compensation for each year of service credited as Class A service and **[**1/60**]** <u>1/55</u> of his final compensation for each year of service credited as Class B service.

c. 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 the

member's beneficiary, an amount equal to 3/16 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.1971, c.213, s.22)

14. Section 61 of P.L.1954, c.84 (C.43:15A-61) is amended to read as follows:

61. a. (Deleted by amendment, P.L.1995, c.332.)

b. Any public employee veteran member in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained 62 years of age and who has 20 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving, instead of the retirement allowance provided under section 48 of this act, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality, public agency, school district or board of education as of January 2, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under section 45 of this act, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in sections 42 and 44 of this act.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained **[**60**]** <u>55</u> years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of **[**one-sixtieth**]** <u>1/55</u> of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in section 48 shall apply in the case of any member retiring under the provisions of subsections a., b. and d. of this section. The death benefit provided in section 45 shall apply in the case of any member retiring under the provisions of subsection c. of this section.
(cf: P.L.1995, c.332, s.2)

15. (New section) The retirement allowance of each retiree under N.J.S.18A:66-36, N.J.S.18A:66-37, N.J.S.18A:66-44, and N.J.S.18A:66-71d., or the retiree's beneficiary pursuant to N.J.S.18A:66-47, on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

16. (New section) The retirement allowance of each retiree under section 38, subsection b. of section 41, section 48, and subsection d. of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b., C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

17. This act shall take effect on the first day of the fourth month after the date of enactment.

STATEMENT

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service has been the type of membership for TPAF and PERS members since the mid-1950s. The bill also increases the retirement benefit for TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The bill further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowances.

The bill provides for a reduction in TPAF member contributions. At present, the TPAF member rate of contribution is 4.5%. This bill provides that after 2001, the rate of contribution will be reduced

equally with employer normal contributions, but not by more than 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets will be used to reduce normal contributions by the State. This change provides that future reductions in TPAF and PERS member contribution rates will be calculated in a similar fashion.

To fund the additional accrued liability for the increased benefits, the bill provides that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, will be the full market value of the assets as of that date.

To fund the additional annual employer normal contribution for the increased benefits, the bill establishes a benefit enhancement fund for both TPAF and PERS which would be funded by excess valuation assets beginning with the valuation period ending June 30, 1999. The amount of excess assets credited to the fund cannot exceed the amount of member contributions for the fiscal year in which the normal contributions are payable. To prevent over funding, the amount of excess valuation assets that can be credited to the benefit enhancement fund is limited to the present value of the expected additional normal contributions for the increased benefits over the expected working lives of the active members for the valuation period. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. If the assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State will pay the amount of the normal contribution not covered by assets from the benefit enhancement fund.

According to the July 1, 1999 TPAF and PERS valuation reports, the market value of TPAF assets exceeded the actuarial value of those assets by over $5 billion and the market value of PERS assets exceeded the actuarial value of those assets by over $3.5 billion.

SENATE STATE GOVERNMENT COMMITTEE

STATEMENT TO

SENATE, No. 2450

STATE OF NEW JERSEY

DATED: JUNE 14, 2001

The Senate State Government Committee reports favorably Senate, No. 2450.

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service has been the type of membership for TPAF and PERS members since the mid-1950s. The bill also increases the retirement benefit for TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The bill further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowances.

The bill provides for a reduction in TPAF member contributions. At present, the TPAF member rate of contribution is 4.5%. This bill provides that after 2001, the rate of contribution will be reduced equally with employer normal contributions, but not by more than 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets will be used to reduce normal contributions by the State. This change provides that future reductions in TPAF and PERS member contribution rates will be calculated in a similar fashion.

To fund the additional accrued liability for the increased benefits, the bill provides that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, will be the full market value of the assets as of that date.

To fund the additional annual employer normal contribution for the increased benefits, the bill establishes a benefit enhancement fund for both TPAF and PERS which would be funded by excess valuation assets beginning with the valuation period ending June 30, 1999. The amount of excess assets credited to the fund cannot exceed the amount of member contributions for the fiscal year in which the normal contributions are payable. To prevent over funding, the amount of excess valuation assets that can be credited to the benefit enhancement fund is limited to the present value of the expected additional normal contributions for the increased benefits over the expected working lives of the active members for the valuation period. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. If the assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State will pay the amount of the normal contribution not covered by assets from the benefit enhancement fund.

According to the July 1, 1999 TPAF and PERS valuation reports, the market value of TPAF assets exceeded the actuarial value of those assets by over $5 billion and the market value of PERS assets exceeded the actuarial value of those assets by over $3.5 billion. The present value of additional pension liabilities generated by this bill is estimated to be $3.9 billion ($2.4 billion for TPAF and $1.5 billion for PERS). The future additional annual normal cost is estimated to be $101 million ($54 million for TPAF and $47 million for PERS).

Senate, No. 2450 is the same as Assembly, No. 3506. That Assembly bill was approved by the Pension and Health Benefits Review Commission at its June 8, 2001 meeting.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2450

STATE OF NEW JERSEY

DATED: JUNE 25, 2001

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 2450.

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirements by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service is the type of membership for TPAF and PERS members since the mid-1950s. The bill similarly increases the alternative retirement benefit available to TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification for that benefit from 60 to 55. Finally, the bill provides that current retirees and beneficiaries will receive a comparable percentage increase in their retirement allowances.

The provisions of this bill are identical to those of Assembly Bill No. 3506, now pending in the General Assembly.

FISCAL IMPACT:

The bill revalues PERS and TPAF assets to June 30, 1999 market value. Excess valuation assets would be available to fund the liability associated with the bill. Excess assets are estimated at $11.4 billion, while the accrued and new liability is estimated at $5.2 billion, leaving excess valuation assets at approximately $6.2 billion.

A pension benefit enhancement fund is created in each system to establish a funding mechanism for the additional future normal cost payments associated with the enhancement.

This bill would provide an effective increase of approximately nine percent in the value of future pensions. In addition, it is expected that the implementation of the bill will require a one-time administrative expenditure of $500,000.

FISCAL NOTE
SENATE No. 2450
STATE OF NEW JERSEY
209th LEGISLATURE

DATED: JULY 13, 2001

SUMMARY

Synopsis: Increases TPAF and PERS retirement benefits for active members and retirees; revises calculation of assets and establishes benefit enhancement fund.

Type of Impact: No direct cost to State or local employers for enhanced benefits. Drawdown of pension fund assets to offset liabilities and administrative costs of bill.

Agencies Affected: Department of Treasury, local government employers.

Executive Estimate

Fiscal Impact	Year 1	Year 2	Year 3
State Cost			
Retirement Benefits	no direct cost	no direct cost	no direct cost
Administrative Costs	$500,000	-0-	-0-
Local Cost			
Retirement Benefits	no direct cost	no direct cost	no direct cost

! The Office of Legislative Services (OLS) **concurs** with the Executive estimate.

! Increases service, deferred, early, and certain veterans retirement benefits for employees and retirees in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS).

! Allows a larger reduction in employee contributions (from 4.5 percent of salary to 3 percent of salary) for members of TPAF in certain circumstances if employer contributions are reduced.

! Additional pension liabilities totaling $5.2 billion result from funding this benefit enhancement.

! Revalues the pension assets of TPAF and PERS to full market value as of June 30, 1999 in order to fund the additional liabilities. Remaining available excess pension assets after the cost of the proposed legislation total $6.2 billion.

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! Establishes "pension benefit enhancement funds" in TPAF and PERS to set aside assets to pay the future annual "normal"costs associated with the enhanced benefit. Currently, annual normal cost is estimated at $101 million.

! The Department of Treasury estimates $500,000 in one-time administrative costs to implement the provisions of the bill.

BILL DESCRIPTION

Senate Bill No. 2450 of 2001 increases retirement benefits for employees, retirees, and beneficiaries enrolled in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees Retirement System (PERS). The formula for the service, deferred and early retirement benefit is changed from 1/60 to 1/55 of final average compensation for each year of Class B service, and 1/70 to 1/64 of final average compensation for each year of Class A service. (Class B service has been in effect since the mid-1950's.) The bill provides for the recalculation of the retirement allowance of retirees' beneficiaries. The bill also reduces from 60 to 55 the minimum age for certain benefits for PERS and TPAF veteran members with 35 or more years of service.

In addition, the bill provides a potential further reduction in employee contributions for members of TPAF. Currently, the TPAF member contribution rate may be reduced by an amount equal to the reduction in the employer contribution, but not by more than 1/2 of 1 percent of compensation. Under the bill, the TPAF member contribution rate may be reduced by 2 percent of compensation beginning in 2002 and thereafter. Excess valuation assets in the pension system will be used to offset the reduced employer and employee contributions.

In order to fund the enhanced benefits provided by the bill, PERS and TPAF pension assets are revalued to reflect their full-market value as of June 30, 1999. The higher values of assets resulting from the revaluation are used to offset the additional liabilities created by increasing the multiplier for the retirement benefit. These liabilities include (1) the accrued (prior) liability to provide the increased benefit to existing members and retirees and (2) the additional costs payable to the pension systems each year (normal cost) to ensure that the future liability for this enhancement is funded. After funding the accrued liability, remaining excess assets are set aside in "pension benefit enhancement funds" which are created in TPAF and PERS to ensure that monies are available to pay the additional normal cost of funding the enhancement each year.

The amount of excess assets credited to each fund cannot exceed the amount of member contributions for the fiscal year in which these contributions are payable. In addition, to prevent over-funding, the cumulative amount of excess valuation assets credited to each fund cannot exceed the present value of the total future liability of this particular benefit enhancement at any given time. In the event that the assets in the benefit enhancement funds with interest are insufficient to pay the additional normal cost of the enhancement, the State is responsible for the difference.

FISCAL ANALYSIS

EXECUTIVE BRANCH

<u>Additional Liabilities Created by S-2450</u>

	PERS-State	PERS-Local	TPAF	Total
Accrued Liability	$600 million	$900 million	$2,400 million	$3,900 million
Projected Liability	$251 million	$345 million	$700 million	$1, 296 million
Total Liability	**$851 million**	**$1,245 million**	**$3,100 million**	**$5,196 million**

Note: Figures are rounded.

! Accrued (prior) liabilities of $3.9 billion represent the amount required to pay the costs of the enhanced benefit for existing members for each year already served in the pension systems.

! An additional liability of $1.3 billion is projected in PERS and TPAF to pay the future costs of the benefit enhancement. This projection, made by the actuary, is the present value of the future normal cost of the enhanced benefit and is subject to change each year.

! Total estimated liabilities resulting from the proposed legislation are $5.2 billion.

<u>Funding of Additional Liabilities</u>

! S-2450 revalues PERS and TPAF assets to June 30, 1999 full market value. Excess valuation assets as of June 30, 1999 would be available to fund the above past and future liabilities associated with the bill.

	PERS-State	PERS-Local	TPAF	Total
Excess Pension Assets*	$2,100 million	$3,600 million	$5,700 million	$11,400 million
Total Liability (Above)	$ 851 million	$1,245 million	$3,100 million	$5,196 million
Remaining Excess pension Assets	**$1,249 million**	**$2,355 million**	**$2,600 million**	**$6,204 million**

Note: Figures are rounded
* Represents revaluation of assets to full market value at 6/30/99

- When the liability is subtracted from available pension assets (after revaluation), a balance of $6.2 billion ($11.4 billion minus $5.2 billion) in excess valuation assets as of June 30, 1999 remains in PERS and TPAF.

Funding Mechanism

- A *Pension Benefit Enhancement Fund* is created in each system in order to establish a funding mechanism for the additional future normal cost payments associated with the enhancement.
- Annually, if additional excess valuation assets are available, an amount not to exceed total employee contributions will be placed into each fund.
- Interest is credited to each fund at the normal rate. Currently, this is 8.75 percent per year.
- The maximum amount of excess assets that can be accumulated in each fund is the "present value of the future normal cost of the enhanced benefit". In essence, the funds are capped at the amount that the actuary determines is necessary to fully fund the future costs of this bill, now estimated at $1.3 billion.

Pension Benefit Enhancement Funds
(Assets to be Applied toward future costs)

	PERS-State	**PERS-Local**	**TPAF**	**Total**
Fund Cap/ Actuarial Liability Estimate**	$250.7 million	$344.6 million	$700.2 million	$1,295.5 million
Employee Pension Contributions -				
6/99 valuation	**$198.2 million**	**$306.9 million**	**$434.7 million**	**$939.8 million**
6/00 valuation	**$132.3 million**	**$212.1 million**	**$344.6 million**	**$689.0 million**

Note: Figures are rounded.
** Will change annually, based on actuarial estimate

- The Department of Treasury has indicated that based on the language in the bill, an amount equal to the amount of employee contributions included in the June 30, 1999 and June 30, 2000 valuations can be transferred from excess valuation assets to the pension benefit enhancement funds. These transfers would stop when the actuarial liability estimate of $1.3 billion is reached, at which point the liability for the enhancement would be fully funded. *Conceivably, based on the above data, the future liability could be funded immediately if the maximum allowable available excess assets are transferred.*

Annual (Normal) Cost to Fund Benefit Enhancement

! The current estimate of the additional annual normal cost for both TPAF and PERS is $101 million (see below).

	PERS-State	PERS-Local	TPAF	Total
First Year Normal Cost Contribution (paid from fund)***	$ 19.0 million	$ 28.0 million	$ 54.0 million	$101.0 million

*** Required normal cost contributions for this benefit enhancement will likely fluctuate based on system membership, employee salaries, and actuarial assumptions.

! Due to the two-year lag between actuarial reporting and budgetary funding of pension liabilities, it is likely that the first normal cost payment for the enhanced benefit, which would be assessed in the June 30, 2002 valuation report, would not be payable until FY 2004.

Impact on Employer/Employee Contributions to the Pension Systems

! Because pension assets are revalued, and excess assets are used to fund the liability for the benefit enhancement, future employer contribution amounts and employee contribution rates under the bill will likely differ from the current projections. The extent of the difference will depend largely upon the interest earned and credited to the pension funds.

Administrative Costs

! The Department of Treasury estimates that one-time administrative costs of $500,000 will be required to implement the provisions of the bill. The Department advises that they will need to contract with OIT to make the necessary programming changes to the pension database. In addition, a mailing will be required to notify all members of the changes in their benefits. These administrative costs can be paid with pension system resources.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services concurs with the Executive Branch data. However, OLS would like to point out that although this proposed legislation does not appear to have a fiscal impact on the State or local governments or their employees, revaluing pension systems and increasing pension benefits does reduce available assets in the pension funds, and could impact employer and employee contributions in the future.

In addition, the value of pension assets at June 30, 1999 does not reflect recent losses due to current market conditions. While the market value of excess assets at June 30, 1999 is $11.4 billion, the market value of excess assets as of April 30, 2001 is only $9 billion. If the proposed legislation had revalued assets as of April 30, 2001 rather than June 30, 1999, the remaining balance of excess valuation assets would total $3.8 billion instead of $6.2 billion.

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.

ASSEMBLY, No. 3506

STATE OF NEW JERSEY

209th LEGISLATURE

INTRODUCED MAY 7, 2001

Sponsored by:
Assemblyman NICHOLAS ASSELTA
District 1 (Cape May, Atlantic and Cumberland)
Assemblyman JOSEPH AZZOLINA
District 13 (Middlesex and Monmouth)

Co-Sponsored by:
Assemblymen Geist, Corodemus, DiGaetano, Assemblywoman Farragher, Assemblymen Felice, Gibson, Assemblywoman Heck, Assemblymen Holzapfel, T.Smith, Thompson, Wolfe, Zecker, Assemblywoman Greenstein, Assemblymen Guear, Kean, R.Smith, Assemblywoman Vandervalk, Assemblyman Arnone, Assemblywoman Weinberg, Assemblymen Barnes, Kelly, Zisa, Conaway, Conners, Assemblywoman Buono, Assemblymen Cottrell, Gusciora, Assemblywoman Watson Coleman, Assemblymen Garcia, Malone, Sires and Wisniewski

SYNOPSIS

Increases TPAF and PERS retirement benefits for active members and retirees; revises calculation of assets and establishes benefit enhancement fund.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 6/29/2001)

AN ACT concerning retirement benefits and the funding of benefits under the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System of New Jersey, and amending and supplementing N.J.S.18A:66-1 et seq. and P.L.1954, c.84.

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

1. N.J.S.18A:66-16 is amended to read as follows:

18A:66-16. There shall be in the retirement system the contingent reserve fund, annuity savings fund, retirement reserve fund, pension fund, special reserve fund, interest fund, <u>benefit enhancement fund</u> and the members' death benefit fund.

(cf: N.J.S.18A:66-16)

2. 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. This shall be known as the "normal contribution."

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 annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, including the liability for pension adjustment 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. 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

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

actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and 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 valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.</u>

"Excess valuation assets" for a valuation period means:

(1) the valuation assets; less

(2) the actuarial accrued liability for basic benefits and pension adjustment benefits, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.231 and P.L.1993, c.163 for employers other than the State; less

(3) the contributory group insurance premium fund created by N.J.S.18A:66-77; less

(4) the post-retirement medical premium fund created pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section 3 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits as originally authorized by section 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets for the valuation period ending March 31, 1996, the normal contributions for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that 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, and provided further that the normal contribution for the valuation period ending March 31, 1996 shall not be less than $54,000,000. If there are excess valuation assets for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

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

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets;

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under N.J.S.18A:66-29 shall be reduced by 1/2 of 1% from excess valuation assets. <u>For calendar years 2000 and 2001, the rate of contribution of members of the retirement system shall be reduced equally with normal contributions to the extent possible, but not more than 1/2 of 1%, from excess valuation assets.</u> Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than **[**1/2 of 1%**]** <u>2%</u>, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State for the fiscal year beginning immediately prior to the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

<u>If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30,1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L. , c. (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under N.J.S.18A:66-25.</u>

<u>The normal contribution for the increased benefits for active members under P.L. , c. (now pending before Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.</u>

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.1997, c.115, s.1)

3. N.J.S.18A:66-25 is amended to read as follows:

18A:66-25. The board of trustees at the end of each fiscal year shall allow interest on the balance of the contingent reserve fund, the annuity savings fund, the retirement reserve fund, pension fund<u>, benefit enhancement fund</u> and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable

thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.
(cf: N.J.S.18A:66-25)

4. N.J.S.18A:66-36 is amended to read as follows:

18A:66-36. Should a member of the Teachers' Pension and Annuity Fund, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for conduct unbecoming a teacher or other just cause under the provisions of sections 18A:28-4 to 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect to receive, in lieu of the payment provided in section 18A:66-34:

a. The payments provided for in section 18A:66-37, if he so qualified under said section; or

b. A deferred retirement allowance beginning at age 60, which shall be made up of an annuity derived from the member's accumulated deductions at the time of his severance from the service, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as class B service, calculated in accordance with section 18A:66-44, with optional privileges provided for in section 18A:66-47 if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided, further, that such member may later elect: (1) to receive the payments provided for in section 18A:66-37, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 18A:66-47, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 18A:66-34. If such member shall die before attaining service retirement age, then his accumulated deductions, plus regular interest after January 1, 1956, shall be paid in accordance with section 18A:66-38, and, in addition if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service shall be paid to such member's beneficiary.

Any member who, having elected to receive a deferred retirement allowance, again becomes an employee covered by the retirement

system while under the age of 60, shall thereupon be reenrolled. If he had discontinued his service for more than 2 consecutive years, subsequent contributions shall be at a rate applicable to the age resulting from the subtraction of his years of creditable service at the time of his last discontinuance of contributing membership from his age at the time of his return to service. He shall be credited with all service as a member standing to his credit at the time of his election to receive a deferred retirement allowance.
(cf: P.L.1981, c.177, s.1)

5. N.J.S.18A:66-37 is amended to read as follows:

18A:66-37. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in N.J.S.18A:66-34, an annuity which is the actuarial equivalent of his accumulated deductions and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as class B service, calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.
(cf: P.L.1995, c.410, s.1)

6. N.J.S.18A:66-44 is amended to read as follows:

18A:66-44. A member, upon retirement for service, shall receive a retirement allowance consisting of:

(a) an annuity which shall be the actuarial equivalent of his accumulated deductions, together with interest after January 1, 1956, less any excess contributions as provided in N.J.S.18A:66-20; and

(b) a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as class B service.

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 the member's beneficiary, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

(cf: P.L.1995, c.410, s.4)

7. N.J.S.18A:66-71 is amended to read as follows:

18A:66-71. a. Any public employee veteran member in office, position or employment of this State or of a county, municipality, or school district, board of education or other employer who (1) has or shall have attained the age of 60 years and has or shall have been for 20 years continuously or in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer, or (2) has or shall have attained the age of 55 years and has or shall have been for 25 years continuously or in the aggregate in that office, position or employment, shall have the privilege of retiring for service and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-44, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

b. (Deleted by amendment, P.L.1984, c.69.)

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer as of January 1, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-41, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in N.J.S.18A:66-39 and N.J.S.18A:66-40.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, school district, board of education or other employer and who shall have attained ⟦60⟧ <u>55</u> years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of ⟦one-sixtieth⟧ <u>1/55</u> of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in N.J.S.18A:66-44 shall apply in the case of any member retiring under the provisions of subsections a. and d. of this section and in the case of any member who has previously retired under the provisions of subsection b. of this section before said subsection was amended by this act. The death benefit provided in N.J.S.18A:66-41 shall apply in the case of any member retiring under the provisions of subsection c. of this section.

f. A member who purchases service credit pursuant to any provision of the "Teachers' Pension and Annuity Fund Law" (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose of satisfying any of the service requirements of that act.

(cf: P.L.1995, c.332, s.1)

8. Section 22 of P.L. 1954, c.84 (C.43:15A-22) is amended to read as follows:

22. Under this act there shall be the contingent reserve fund, annuity savings fund, retirement reserve fund, <u>benefit enhancement fund</u> and the special reserve fund.

(cf: P.L.1963, c.51, s.1)

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

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

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

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the "Pension Bond Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. **[**Notwithstanding the first sentence of this paragraph, the amount 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, 1999 shall include an additional amount of the market value of the assets sufficient to fund the unfunded accrued liability for the supplementary "special" retirement allowances provided under section 4 of P.L.2001, c.4 (C.43:15A-100.1).**]** <u>Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.</u>

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

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

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

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

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

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits for the State authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in

period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

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

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

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

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

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

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

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

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

(3) for the valuation period ending March 31, 2003, to the extent

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

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

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

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30, 1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L.   , c.   (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under section 33 of P.L. 1954, c.84 (C.43:15A-33).

The normal contribution for the increased benefits for active employees under P.L.   , c.   (now pending before the Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.

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.2001, c.4, s.5)

10. Section 33 of P.L.1954, c.84 (C.43:15A-33) is amended to read as follows:

33. The board of trustees at the end of each fiscal year shall allow interest on the balance of the annuity savings fund, contingent reserve fund, the retirement reserve fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

(cf: P.L.1954, c.244, s.5)

11. Section 38 of P.L.1954, c.84 (C.43:15A-38) is amended to read as follows:

38. Should a member of the Public Employees' Retirement System, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for cause on charges of misconduct or delinquency, such person may elect to receive:

(a) The payments provided for in section 41b. of this act, if he so qualifies under said section, or;

(b) A deferred retirement allowance, beginning at the retirement age, which shall be made up of an annuity derived from the accumulated deductions standing to the credit of the individual member's account in the annuity savings fund at the time of his severance from the service together with regular interest, and a pension which when added to the annuity will produce a total retirement allowance of [1/70] 1/64 of his final compensation for each year of service credited as Class A service and [1/60] 1/55 of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 of this act, with optional privileges provided for in section 50 of this act if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided further, that such member, as referred to in this subsection may later elect: (1) to receive the payments provided for in section 41b. of this act, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 50, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 41a. If such member shall die before attaining service retirement age then his accumulated deductions, plus regular interest, shall be paid in accordance with section 41c.; or if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation received by the member in the last year of creditable service shall be paid to such person, if living, as he shall have nominated by written designation duly executed and filed with the retirement system; otherwise to the executor or administrator of the member's estate.

(cf: P.L.1981, c.177, s.4)

12. Section 41 of P.L.1954, c.84 (C.43:15A-41) is amended to read as follows:

41. <u>a.</u> A member who withdraws from service or ceases to be an employee for any cause other than death or retirement shall, upon the filing of an application therefor, receive all of his accumulated deductions standing to the credit of his individual account in the annuity savings fund, plus regular interest, less any outstanding loan, except that for any period after June 30, 1944, the interest payable shall be such proportion of the interest determined at the regular rate of 2% per annum bears to the regular rate of interest, and except that no interest shall be payable in the case of a member who has less than three years of membership credit for which he has made contributions. He shall cease to be a member two years from the date he discontinued service as an eligible employee, or, if prior thereto, upon payment to him of his accumulated deductions. If any such person or member shall die before withdrawing or before endorsing the check constituting the return of his accumulated deductions, such deductions shall be paid to the member's beneficiary. No member shall be entitled to withdraw the amounts contributed by his employer covering his military leave unless he shall have returned to the payroll and contributed to the retirement system for a period of 90 days.

b. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in subsection a. of this section, an annuity which is the actuarial equivalent of his accumulated deductions together with regular interest, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [one-seventieth] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [one-sixtieth] <u>1/55</u> of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 (C. 43:15A-48) of this act, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to three-sixteenths of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

c. Upon the receipt of proper proofs of the death of a member in service on account of which no accidental death benefit is payable under section 49 there shall be paid to such member's beneficiary:

(1) The member's accumulated deductions at the time of death together with regular interest; and

(2) An amount equal to one and one-half times 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.1987, c.1, s.1)

13. Section 48 of P.L.1954, c.84 (C.43:15A-48) is amended to read as follows:

48. A member, upon retirement for service, shall receive a retirement allowance consisting of:

a. An annuity which shall be the actuarial equivalent of his accumulated deductions together with regular interest; and

b. A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as Class B service.

c. 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 the member's beneficiary, an amount equal to 3/16 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.1971, c.213, s.22)

14. Section 61 of P.L.1954, c.84 (C.43:15A-61) is amended to read as follows:

61. a. (Deleted by amendment, P.L.1995, c.332.)

b. Any public employee veteran member in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained 62 years of age and who has 20 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving, instead of the retirement allowance provided under section 48 of this act, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality, public agency, school district or board of education as of January 2, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under section 45 of this act, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in sections 42 and 44 of this act.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained ⟦60⟧ <u>55</u> years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of ⟦one-sixtieth⟧ <u>1/55</u> of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in section 48 shall apply in the case of any member retiring under the provisions of subsections a., b. and d. of this section. The death benefit provided in section 45 shall apply in the case of any member retiring under the provisions of subsection c. of this section.
(cf: P.L.1995, c.332, s.2)

15. (New section) The retirement allowance of each retiree under N.J.S.18A:66-36, N.J.S.18A:66-37, N.J.S.18A:66-44, and N.J.S.18A:66-71d., or the retiree's beneficiary pursuant to N.J.S.18A:66-47, on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

16. (New section) The retirement allowance of each retiree under section 38, subsection b. of section 41, section 48, and subsection d. of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b., C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

17. This act shall take effect on the first day of the fourth month after the date of enactment.

STATEMENT

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service has been the type of membership for TPAF and PERS members since the mid-1950s. The bill also increases the retirement benefit for TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The bill further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowances.

The bill provides for a reduction in TPAF member contributions. At present, the TPAF member rate of contribution is 4.5%. This bill provides that after 2001, the rate of contribution will be reduced

equally with employer normal contributions, but not by more than 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets will be used to reduce normal contributions by the State. This change provides that future reductions in TPAF and PERS member contribution rates will be calculated in a similar fashion.

To fund the additional accrued liability for the increased benefits, the bill provides that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, will be the full market value of the assets as of that date.

To fund the additional annual employer normal contribution for the increased benefits, the bill establishes a benefit enhancement fund for both TPAF and PERS which would be funded by excess valuation assets beginning with the valuation period ending June 30, 1999. The amount of excess assets credited to the fund cannot exceed the amount of member contributions for the fiscal year in which the normal contributions are payable. To prevent over funding, the amount of excess valuation assets that can be credited to the benefit enhancement fund is limited to the present value of the expected additional normal contributions for the increased benefits over the expected working lives of the active members for the valuation period. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. If the assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State will pay the amount of the normal contribution not covered by assets from the benefit enhancement fund.

According to the July 1, 1999 TPAF and PERS valuation reports, the market value of TPAF assets exceeded the actuarial value of those assets by over $5 billion and the market value of PERS assets exceeded the actuarial value of those assets by over $3.5 billion.

ASSEMBLY STATE GOVERNMENT COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3506

STATE OF NEW JERSEY

DATED: MAY 21, 2001

The Assembly State Government Committee reports favorably Assembly, No. 3506.

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirements by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service is the type of membership for TPAF and PERS members since the mid-1950s. The bill similarly increases the alternative retirement benefit available to TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification for that benefit from 60 to 55. The bill further provides that current retirees and beneficiaries will receive a comparable percentage increase in their retirement allowances.

Under the bill, future reductions in the TPAF member contribution rate will be calculated in the same manner as the reductions in the PERS member contribution rate. The bill changes from 1/2 % to 2% the maximum percentage by which the TPAF member contribution rate will be reduced equally with employer normal contributions if the State Treasurer determines that excess valuation assets will be used to reduce normal contributions by the State.

To fund the additional accrued liability for the increased benefits, the bill provides that the actuarial value of the assets of both TPAF and PERS, for the valuation period ending June 30, 1999, will be the full market value of the assets as of that date.

To fund the additional annual employer normal contribution for the increased benefits, the bill establishes a benefit enhancement fund in both TPAF and PERS, which will be funded by excess valuation assets beginning with the valuation period ending June 30, 1999. The amount of excess assets credited to a benefit enhancement fund cannot exceed the amount of member contributions for the fiscal year in which the normal contributions are payable. To prevent over funding, a benefit enhancement fund cannot have to its credit more than the present value of the expected additional normal contributions for the increased benefits over the expected working lives of the active members for the valuation period. No additional excess valuation assets will be credited to a benefit enhancement fund credited with the maximum amount. If the assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State will pay the amount of the normal contribution not covered by assets from the benefit enhancement fund.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3506

STATE OF NEW JERSEY

DATED: JUNE 21, 2001

The Assembly Appropriations Committee reports favorably Assembly Bill No. 3506.

Assembly Bill No. 3506 increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirements by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service is the type of membership for TPAF and PERS members since the mid-1950s. The bill similarly increases the alternative retirement benefit available to TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification for that benefit from 60 to 55. The bill further provides that current retirees and beneficiaries will receive a comparable percentage increase in their retirement allowances.

FISCAL IMPACT:

The bill revalues PERS and TPAF assets to June 30, 1999 market value. Excess valuation assets would be available to fund the liability associated with the bill. Excess assets are estimated at $11.4 billion, while the accrued and new liability is estimated at $5.2 billion, leaving excess valuation assets at approximately $6.2 billion.

A pension benefit enhancement fund is created in each system to establish a funding mechanism for the additional future normal cost payments associated with the enhancement.

The provisions of this bill represent a modest increase of approximately nine percent in the value of future pensions. There should also be a one-time administrative cost of $500,000 to implement the provisions of this bill.

FISCAL NOTE
ASSEMBLY No. 3506
STATE OF NEW JERSEY
209th LEGISLATURE

DATED: JULY 11, 2001

SUMMARY

Synopsis: Increases TPAF and PERS retirement benefits for active members and retirees; revises calculation of assets and establishes benefit enhancement fund.

Type of Impact: No direct cost to State or local employers for enhanced benefits. Drawdown of pension fund assets to offset liabilities and administrative costs of bill.

Agencies Affected: Department of Treasury, local government employers.

Executive Estimate

Fiscal Impact	Year 1	Year 2	Year 3
State Cost			
Retirement Benefits	no direct cost	no direct cost	no direct cost
Administrative Costs	$500,000	-0-	-0-
Local Cost			
Retirement Benefits	no direct cost	no direct cost	no direct cost

! The Office of Legislative Services (OLS) **concurs** with the Executive estimate.

! Increases service, deferred, early, and certain veterans retirement benefits for employees and retirees in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS).

! Allows a larger reduction in employee contributions (from 4.5 percent of salary to 3 percent of salary) for members of TPAF in certain circumstances if employer contributions are reduced.

! Additional pension liabilities totaling $5.2 billion result from funding this benefit enhancement.

! Revalues the pension assets of TPAF and PERS to full market value as of June 30, 1999 in order to fund the additional liabilities. Remaining available excess pension assets after the cost of the proposed legislation total $6.2 billion.

Office of Legislative Services
State House Annex
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OLS

Legislative Budget and Finance Office
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- Establishes "pension benefit enhancement funds" in TPAF and PERS to set aside assets to pay the future annual "normal"costs associated with the enhanced benefit. Currently, annual normal cost is estimated at $101 million.

- The Department of Treasury estimates $500,000 in one-time administrative costs to implement the provisions of the bill.

BILL DESCRIPTION

Assembly Bill No. 3506 of 2001 increases retirement benefits for employees, retirees, and beneficiaries enrolled in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees Retirement System (PERS). The formula for the service, deferred and early retirement benefit is changed from 1/60 to 1/55 of final average compensation for each year of Class B service, and 1/70 to 1/64 of final average compensation for each year of Class A service. (Class B service has been in effect since the mid-1950's.) The bill provides for the recalculation of the retirement allowance of retirees' beneficiaries. The bill also reduces from 60 to 55 the minimum age for certain benefits for PERS and TPAF veteran members with 35 or more years of service.

In addition, the bill provides a potential further reduction in employee contributions for members of TPAF. Currently, the TPAF member contribution rate may be reduced by an amount equal to the reduction in the employer contribution, but not by more than 1/2 of 1 percent of compensation. Under the bill, the TPAF member contribution rate may be reduced by 2 percent of compensation beginning in 2002 and thereafter. Excess valuation assets in the pension system will be used to offset the reduced employer and employee contributions.

In order to fund the enhanced benefits provided by the bill, PERS and TPAF pension assets are revalued to reflect their full-market value as of June 30, 1999. The higher values of assets resulting from the revaluation are used to offset the additional liabilities created by increasing the multiplier for the retirement benefit. These liabilities include (1) the accrued (prior) liability to provide the increased benefit to existing members and retirees and (2) the additional costs payable to the pension systems each year (normal cost) to ensure that the future liability for this enhancement is funded. After funding the accrued liability, remaining excess assets are set aside in "pension benefit enhancement funds" which are created in TPAF and PERS to ensure that monies are available to pay the additional normal cost of funding the enhancement each year.

The amount of excess assets credited to each fund cannot exceed the amount of member contributions for the fiscal year in which these contributions are payable. In addition, to prevent over-funding, the cumulative amount of excess valuation assets credited to each fund cannot exceed the present value of the total future liability of this particular benefit enhancement at any given time. In the event that the assets in the benefit enhancement funds with interest are insufficient to pay the additional normal cost of the enhancement, the State is responsible for the difference.

FISCAL ANALYSIS

EXECUTIVE BRANCH

Additional Liabilities Created by A-3506

	PERS-State	PERS-Local	TPAF	Total
Accrued Liability	$600 million	$900 million	$2,400 million	$3,900 million
Projected Liability	$251 million	$345 million	$700 million	$1, 296 million
Total Liability	**$851 million**	**$1,245 million**	**$3,100 million**	**$5,196 million**

Note: Figures are rounded.

! Accrued (prior) liabilities of $3.9 billion represent the amount required to pay the costs of the enhanced benefit for existing members for each year already served in the pension systems.

! An additional liability of $1.3 billion is projected in PERS and TPAF to pay the future costs of the benefit enhancement. This projection, made by the actuary, is the present value of the future normal cost of the enhanced benefit and is subject to change each year.

! Total estimated liabilities resulting from the proposed legislation are $5.2 billion.

Funding of Additional Liabilities

! A-3506 revalues PERS and TPAF assets to June 30, 1999 full market value. Excess valuation assets as of June 30, 1999 would be available to fund the above past and future liabilities associated with the bill.

	PERS-State	PERS-Local	TPAF	Total
Excess Pension Assets*	$2,100 million	$3,600 million	$5,700 million	$11,400 million
Total Liability (Above)	$ 851 million	$1,245 million	$3,100 million	$5,196 million
Remaining Excess pension Assets	**$1,249 million**	**$2,355 million**	**$2,600 million**	**$6,204 million**

Note: Figures are rounded

* Represents revaluation of assets to full market value at 6/30/99

- When the liability is subtracted from available pension assets (after revaluation), a balance of $6.2 billion ($11.4 billion minus $5.2 billion) in excess valuation assets as of June 30, 1999 remains in PERS and TPAF.

Funding Mechanism

- A *Pension Benefit Enhancement Fund* is created in each system in order to establish a funding mechanism for the additional future normal cost payments associated with the enhancement.
- Annually, if additional excess valuation assets are available, an amount not to exceed total employee contributions will be placed into each fund.
- Interest is credited to each fund at the normal rate. Currently, this is 8.75 percent per year.
- The maximum amount of excess assets that can be accumulated in each fund is the "present value of the future normal cost of the enhanced benefit". In essence, the funds are capped at the amount that the actuary determines is necessary to fully fund the future costs of this bill, now estimated at $1.3 billion.

Pension Benefit Enhancement Funds
(Assets to be Applied toward future costs)

	PERS-State	**PERS-Local**	**TPAF**	**Total**
Fund Cap/ Actuarial Liability Estimate**	$250.7 million	$344.6 million	$700.2 million	$1,295.5 million
Employee Pension Contributions -				
6/99 valuation	**$198.2 million**	**$306.9 million**	**$434.7 million**	**$939.8 million**
6/00 valuation	**$132.3 million**	**$212.1 million**	**$344.6 million**	**$689.0 million**

Note: Figures are rounded.
** Will change annually, based on actuarial estimate

- The Department of Treasury has indicated that based on the language in the bill, an amount equal to the amount of employee contributions included in the June 30, 1999 and June 30, 2000 valuations can be transferred from excess valuation assets to the pension benefit enhancement funds. These transfers would stop when the actuarial liability estimate of $1.3 billion is reached, at which point the liability for the enhancement would be fully funded. *Conceivably, based on the above data, the future liability could be funded immediately if the maximum allowable available excess assets are transferred.*

Annual (Normal) Cost to Fund Benefit Enhancement

- The current estimate of the additional annual normal cost for both TPAF and PERS is $101 million (see below).

	PERS-State	PERS-Local	TPAF	Total
First Year Normal Cost Contribution (paid from fund)***	$ 19.0 million	$ 28.0 million	$ 54.0 million	$101.0 million

*** Required normal cost contributions for this benefit enhancement will likely fluctuate based on system membership, employee salaries, and actuarial assumptions.

- Due to the two-year lag between actuarial reporting and budgetary funding of pension liabilities, it is likely that the first normal cost payment for the enhanced benefit, which would be assessed in the June 30, 2002 valuation report, would not be payable until FY 2004.

Impact on Employer/Employee Contributions to the Pension Systems

- Because pension assets are revalued, and excess assets are used to fund the liability for the benefit enhancement, future employer contribution amounts and employee contribution rates under the bill will likely differ from the current projections. The extent of the difference will depend largely upon the interest earned and credited to the pension funds.

Administrative Costs

- The Department of Treasury estimates that one-time administrative costs of $500,000 will be required to implement the provisions of the bill. The Department advises that they will need to contract with OIT to make the necessary programming changes to the pension database. In addition, a mailing will be required to notify all members of the changes in their benefits. These administrative costs can be paid with pension system resources.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services concurs with the Executive Branch data. However, OLS would like to point out that although this proposed legislation does not appear to have a fiscal impact on the State or local governments or their employees, revaluing pension systems and increasing pension benefits does reduce available assets in the pension funds, and could impact employer and employee contributions in the future.

In addition, the value of pension assets at June 30, 1999 does not reflect recent losses due to current market conditions. While the market value of excess assets at June 30, 1999 is $11.4 billion, the market value of excess assets as of April 30, 2001 is only $9 billion. If the proposed legislation had revalued assets as of April 30, 2001 rather than June 30, 1999, the remaining balance of excess valuation assets would total $3.8 billion instead of $6.2 billion.

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.

§15 - C.18A:66-5.1
§16 - C.43:15A-16.1
§17 - Note to §§1-16

P.L. 2001, CHAPTER 133, ***approved June 29, 2001***
Senate, No. 2450

AN ACT concerning retirement benefits and the funding of benefits under the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System of New Jersey, and amending and supplementing N.J.S.18A:66-1 et seq. and P.L.1954, c.84.

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

1. N.J.S.18A:66-16 is amended to read as follows:

18A:66-16. There shall be in the retirement system the contingent reserve fund, annuity savings fund, retirement reserve fund, pension fund, special reserve fund, interest fund, <u>benefit enhancement fund</u> and the members' death benefit fund.

(cf: N.J.S.18A:66-16)

2. 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. This shall be known as the "normal contribution."

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 annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, including the liability for pension adjustment 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. 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

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

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 March 31, 1996 shall be the full market value of the assets as of that date and 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 valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.

"Excess valuation assets" for a valuation period means:

(1) the valuation assets; less

(2) the actuarial accrued liability for basic benefits and pension adjustment benefits, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.231 and P.L.1993, c.163 for employers other than the State; less

(3) the contributory group insurance premium fund created by N.J.S.18A:66-77; less

(4) the post-retirement medical premium fund created pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section 3 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits as originally authorized by section 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets for the valuation period ending March 31, 1996, the normal contributions for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that 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, and provided further that the normal contribution for the valuation period ending March 31, 1996 shall not be less than $54,000,000. If there are excess valuation assets for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

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

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets;

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under N.J.S.18A:66-29 shall be reduced by 1/2 of 1% from excess valuation assets. For calendar years 2000 and 2001, the rate of contribution of members of the retirement system shall be reduced equally with normal contributions to the extent possible, but not more than 1/2 of 1%, from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than [1/2 of 1%] 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State for the fiscal year beginning immediately prior to the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

<u>If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30,1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L. , c. (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under N.J.S.18A:66-25.</u>

<u>The normal contribution for the increased benefits for active members under P.L. , c. (now pending before Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.</u>

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.1997, c.115, s.1)

3. N.J.S.18A:66-25 is amended to read as follows:

18A:66-25. The board of trustees at the end of each fiscal year shall allow interest on the balance of the contingent reserve fund, the annuity savings fund, the retirement reserve fund, pension fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

(cf: N.J.S.18A:66-25)

4. N.J.S.18A:66-36 is amended to read as follows:

18A:66-36. Should a member of the Teachers' Pension and Annuity Fund, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for conduct unbecoming a teacher or other just cause under the provisions of sections 18A:28-4 to 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect to receive, in lieu of the payment provided in section 18A:66-34:

a. The payments provided for in section 18A:66-37, if he so qualified under said section; or

b. A deferred retirement allowance beginning at age 60, which shall be made up of an annuity derived from the member's accumulated deductions at the time of his severance from the service, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] 1/64 of his final compensation for each year of service credited as Class A service and [1/60] 1/55 of his final compensation for each year of service credited as class B service, calculated in accordance with section 18A:66-44, with optional privileges provided for in section 18A:66-47 if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided, further, that such member may later elect: (1) to receive the payments provided for in section 18A:66-37, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 18A:66-47, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 18A:66-34. If such member shall die before attaining service retirement age, then his accumulated deductions, plus regular interest after January 1, 1956, shall be paid in accordance with section 18A:66-38, and, in addition if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service shall be paid to such member's beneficiary.

Any member who, having elected to receive a deferred retirement allowance, again becomes an employee covered by the retirement system while under the age of 60, shall thereupon be reenrolled. If he had discontinued his service for more than 2 consecutive years, subsequent contributions shall be at a rate applicable to the age resulting from the subtraction of his years of creditable service at the time of his last discontinuance of contributing membership from his age at the time of his return to service. He shall be credited with all service as a member standing to his credit at the time of his election to receive a deferred retirement allowance.

(cf: P.L.1981, c.177, s.1)

5. N.J.S.18A:66-37 is amended to read as follows:

18A:66-37. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in N.J.S.18A:66-34, an annuity which is the actuarial equivalent of his accumulated deductions and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] 1/64 of his final compensation for each year of service credited as class A service and [1/60] 1/55 of his final compensation for each year of service credited as class B service, calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

(cf: P.L.1995, c.410, s.1)

6. N.J.S.18A:66-44 is amended to read as follows:

18A:66-44. A member, upon retirement for service, shall receive a retirement allowance consisting of:

(a) an annuity which shall be the actuarial equivalent of his accumulated deductions, together with interest after January 1, 1956, less any excess contributions as provided in N.J.S.18A:66-20; and

(b) a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] 1/64 of his final compensation for each year of service credited as class A service and [1/60] 1/55 of his final compensation for each year of service credited as class B service.

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 the member's beneficiary, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

(cf: P.L.1995, c.410, s.4)

7. N.J.S.18A:66-71 is amended to read as follows:

18A:66-71. a. Any public employee veteran member in office, position or employment of this State or of a county, municipality, or school district, board of education or other employer who (1) has or shall have attained the age of 60 years and has or shall have been for 20 years continuously or in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer, or (2) has or shall have attained the age of 55 years and has or shall have been for 25 years continuously or in the aggregate in that office, position or employment, shall have the privilege of retiring for service and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-44, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

b. (Deleted by amendment, P.L.1984, c.69.)

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer as of January 1, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-41, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in N.J.S.18A:66-39 and N.J.S.18A:66-40.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, school district, board of education or other employer and who shall have attained [60] 55 years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of [one-sixtieth] 1/55 of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in N.J.S.18A:66-44 shall apply in the case of any member retiring under the provisions of subsections a. and d. of this section and in the case of any member who has previously retired under the provisions of subsection b. of this section before said subsection was amended by this act. The death benefit provided in N.J.S.18A:66-41 shall apply in the case of any member retiring under the provisions of subsection c. of this section.

f. A member who purchases service credit pursuant to any provision of the "Teachers' Pension and Annuity Fund Law" (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose of satisfying any of the service requirements of that act.

(cf: P.L.1995, c.332, s.1)

8. Section 22 of P.L. 1954, c.84 (C.43:15A-22) is amended to read as follows:

22. Under this act there shall be the contingent reserve fund, annuity savings fund, retirement reserve fund, benefit enhancement fund and the special reserve fund.

(cf: P.L.1963, c.51, s.1)

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

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

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

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and, with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the "Pension Bond Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system. [Notwithstanding the first sentence of this paragraph, the amount 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, 1999 shall include an additional amount of the market value of the assets sufficient to fund the unfunded accrued liability for the supplementary "special" retirement allowances provided under section 4 of P.L.2001, c.4 (C.43:15A-100.1).] <u>Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.</u>

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

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

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

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

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

(5) the present value of the projected total normal cost for pension

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

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

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

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

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

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

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

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

(2) for the valuation period ending March 31, 2002, to the extent

possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

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

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

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

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30, 1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L.   , c.   (now pending before the Legislature as this bill) payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under section 33 of P.L.1954, c.84 (C.43:15A-33).

The normal contribution for the increased benefits for active employees under P.L.   , c.   (now pending before the Legislature as this bill) shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.

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.2001, c.4, s.5)

10. Section 33 of P.L.1954, c.84 (C.43:15A-33) is amended to read as follows:

33. The board of trustees at the end of each fiscal year shall allow interest on the balance of the annuity savings fund, contingent reserve fund, the retirement reserve fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

(cf: P.L.1954, c.244, s.5)

11. Section 38 of P.L.1954, c.84 (C.43:15A-38) is amended to read as follows:

38. Should a member of the Public Employees' Retirement System, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for cause on charges of misconduct or delinquency, such person may elect to receive:

(a) The payments provided for in section 41b. of this act, if he so qualifies under said section, or;

(b) A deferred retirement allowance, beginning at the retirement age, which shall be made up of an annuity derived from the accumulated deductions standing to the credit of the individual member's account in the annuity savings fund at the time of his severance from the service together with regular interest, and a pension which when added to the annuity will produce a total retirement allowance of [1/70] 1/64 of his final compensation for each year of service credited as Class A service and [1/60] 1/55 of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 of this act, with optional privileges provided for in section 50 of this act if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided further, that such member, as referred to in this subsection may later elect: (1) to receive the payments provided for in section 41b. of this act, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 50, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 41a. If such member shall die before attaining service retirement age then his accumulated deductions, plus regular interest, shall be paid in accordance with section 41c.; or if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation received by the member in the last year of creditable service shall be paid to such person, if living, as he shall have nominated by written designation duly executed and filed with the retirement system; otherwise to the executor or administrator of the member's estate.

(cf: P.L.1981, c.177, s.4)

12. Section 41 of P.L.1954, c.84 (C.43:15A-41) is amended to read as follows:

41. a. A member who withdraws from service or ceases to be an employee for any cause other than death or retirement shall, upon the filing of an application therefor, receive all of his accumulated deductions standing to the credit of his individual account in the annuity savings fund, plus regular interest, less any outstanding loan, except that for any period after June 30, 1944, the interest payable shall be such proportion of the interest determined at the regular rate of 2% per annum bears to the regular rate of interest, and except that no interest shall be payable in the case of a member who has less than three years of membership credit for which he has made contributions. He shall cease to be a member two years from the date he discontinued service as an eligible employee, or, if prior thereto, upon payment to him of his accumulated deductions. If any such person or member shall die before withdrawing or before endorsing the check constituting the return of his accumulated deductions, such deductions shall be paid to the member's beneficiary. No member shall be entitled to withdraw the amounts contributed by his employer covering his military leave unless he shall have returned to the payroll and

contributed to the retirement system for a period of 90 days.

b. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in subsection a. of this section, an annuity which is the actuarial equivalent of his accumulated deductions together with regular interest, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [one-seventieth] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [one-sixtieth] <u>1/55</u> of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 (C. 43:15A-48) of this act, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to three-sixteenths of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

c. Upon the receipt of proper proofs of the death of a member in service on account of which no accidental death benefit is payable under section 49 there shall be paid to such member's beneficiary:

(1) The member's accumulated deductions at the time of death together with regular interest; and

(2) An amount equal to one and one-half times 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.1987, c.1, s.1)

13. Section 48 of P.L.1954, c.84 (C.43:15A-48) is amended to read as follows:

48. A member, upon retirement for service, shall receive a retirement allowance consisting of:

a. An annuity which shall be the actuarial equivalent of his accumulated deductions together with regular interest; and

b. A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of [1/70] <u>1/64</u> of his final compensation for each year of service credited as Class A service and [1/60] <u>1/55</u> of his final compensation for each year of service credited as Class B service.

c. 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 the member's beneficiary, an amount equal to 3/16 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.1971, c.213, s.22)

14. Section 61 of P.L.1954, c.84 (C.43:15A-61) is amended to read as follows:

61. a. (Deleted by amendment, P.L.1995, c.332.)

b. Any public employee veteran member in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained 62 years of age and who has 20 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving, instead of the retirement allowance provided under section 48 of this act, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality, public agency, school district or board of education as of January 2, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under section 45 of this act, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in sections 42 and 44 of this act.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained ⟦60⟧ <u>55</u> years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of ⟦one-sixtieth⟧ <u>1/55</u> of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in section 48 shall apply in the case of any member retiring under the provisions of subsections a., b. and d. of this section. The death benefit provided in section 45 shall apply in the case of any member retiring under the provisions of subsection c. of this section.
(cf: P.L.1995, c.332, s.2)

15. (New section) The retirement allowance of each retiree under N.J.S.18A:66-36, N.J.S.18A:66-37, N.J.S.18A:66-44, and N.J.S.18A:66-71d., or the retiree's beneficiary pursuant to N.J.S.18A:66-47, on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

16. (New section) The retirement allowance of each retiree under section 38, subsection b. of section 41, section 48, and subsection d. of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b., C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the effective date of this act, P.L. , c. (now pending before the Legislature as this bill), shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L. , c. . The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

17. This act shall take effect on the first day of the fourth month after the date of enactment.

STATEMENT

This bill increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/70 to 1/64 of final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service. Class B service has been the type of membership for TPAF and PERS members since the mid-1950s. The bill also increases the retirement benefit for TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The bill further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowances.

The bill provides for a reduction in TPAF member contributions. At present, the TPAF member rate of contribution is 4.5%. This bill provides that after 2001, the rate of contribution will be reduced

equally with employer normal contributions, but not by more than 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets will be used to reduce normal contributions by the State. This change provides that future reductions in TPAF and PERS member contribution rates will be calculated in a similar fashion.

To fund the additional accrued liability for the increased benefits, the bill provides that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, will be the full market value of the assets as of that date.

To fund the additional annual employer normal contribution for the increased benefits, the bill establishes a benefit enhancement fund for both TPAF and PERS which would be funded by excess valuation assets beginning with the valuation period ending June 30, 1999. The amount of excess assets credited to the fund cannot exceed the amount of member contributions for the fiscal year in which the normal contributions are payable. To prevent over funding, the amount of excess valuation assets that can be credited to the benefit enhancement fund is limited to the present value of the expected additional normal contributions for the increased benefits over the expected working lives of the active members for the valuation period. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. If the assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State will pay the amount of the normal contribution not covered by assets from the benefit enhancement fund.

According to the July 1, 1999 TPAF and PERS valuation reports, the market value of TPAF assets exceeded the actuarial value of those assets by over $5 billion and the market value of PERS assets exceeded the actuarial value of those assets by over $3.5 billion.

Increases TPAF and PERS retirement benefits for active members and retirees; revises calculation of assets and establishes benefit enhancement fund.

CHAPTER 133

AN ACT concerning retirement benefits and the funding of benefits under the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System of New Jersey, and amending and supplementing N.J.S.18A:66-1 et seq. and P.L.1954, c.84.

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

1. N.J.S.18A:66-16 is amended to read as follows:

Creation of funds.

18A:66-16. There shall be in the retirement system the contingent reserve fund, annuity savings fund, retirement reserve fund, pension fund, special reserve fund, interest fund, benefit enhancement fund and the members' death benefit fund.

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

Contingent reserve fund.

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. This shall be known as the "normal contribution."

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 annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, including the liability for pension adjustment 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. 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 March 31, 1996 shall be the full market value of the assets as of that date and 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 valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.

"Excess valuation assets" for a valuation period means:

(1) the valuation assets; less

(2) the actuarial accrued liability for basic benefits and pension adjustment benefits, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.231 and P.L.1993, c.163 for employers other than the State; less

(3) the contributory group insurance premium fund created by N.J.S.18A:66-77; less

(4) the post-retirement medical premium fund created pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section 3 of P.L.1994, c.62; less

(5) the present value of the projected total normal cost for pension adjustment benefits in excess of the projected total phased-in normal cost for pension adjustment benefits as originally authorized by section 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period, determined in the manner prescribed for the determination and amortization of the unfunded accrued liability of the system, if the sum of the foregoing items is greater than zero.

If there are excess valuation assets for the valuation period ending March 31, 1996, the normal contributions for the valuation periods ending March 31, 1996 and March 31, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that 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, and provided further that the normal contribution for the valuation period ending March 31, 1996 shall not be less than $54,000,000. If there are excess valuation assets for a valuation period ending after March 31, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

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

(2) for the valuation period ending March 31, 2002, to the extent possible by up to 84% of the excess valuation assets;

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under N.J.S.18A:66-29 shall be reduced by 1/2 of 1% from excess valuation assets. For calendar years 2000 and 2001, the rate of contribution of members of the retirement system shall be reduced equally with normal contributions to the extent possible, but not more than 1/2 of 1%, from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than 2%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State for the fiscal year beginning immediately prior to the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30,1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L.2001, c.133 payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under N.J.S.18A:66-25.

The normal contribution for the increased benefits for active members under P.L.2001, c.133 shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.

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.

3. N.J.S.18A:66-25 is amended to read as follows:

Interest allowed on funds.

18A:66-25. The board of trustees at the end of each fiscal year shall allow interest on the balance of the contingent reserve fund, the annuity savings fund, the retirement reserve fund, pension fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

4. N.J.S.18A:66-36 is amended to read as follows:

Vesting of TPAF members.

18A:66-36. Should a member of the Teachers' Pension and Annuity Fund, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for conduct unbecoming a teacher or other just cause under the provisions of sections 18A:28-4 to 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect to receive, in lieu of the payment provided in section 18A:66-34:

a. The payments provided for in section 18A:66-37, if he so qualified under said section; or

b. A deferred retirement allowance beginning at age 60, which shall be made up of an annuity derived from the member's accumulated deductions at the time of his severance from the service, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1/64 of his final compensation for each year of service credited as Class A service and 1/55 of his final compensation for each year of service credited as class B service, calculated in accordance with section 18A:66-44, with optional privileges provided for in section 18A:66-47 if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided, further, that such member may later elect: (1) to receive the payments provided for in section 18A:66-37, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 18A:66-47, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 18A:66-34. If such member shall die before attaining service retirement age, then his accumulated deductions, plus regular interest after January 1, 1956, shall be paid in accordance with section 18A:66-38, and, in addition if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service shall be paid to such member's beneficiary.

Any member who, having elected to receive a deferred retirement allowance, again becomes an employee covered by the retirement system while under the age of 60, shall thereupon be reenrolled. If he had discontinued his service for more than two consecutive years, subsequent contributions shall be at a rate applicable to the age resulting from the subtraction of his years of creditable service at the time of his last discontinuance of contributing membership from his age at the time of his return to service. He shall be credited with all service as a member standing to his credit at the time of his election to receive a deferred retirement allowance.

5. N.J.S.18A:66-37 is amended to read as follows:

Early retirement.

18A:66-37. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in N.J.S.18A:66-34, an annuity which is the actuarial equivalent of his accumulated deductions and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1/64 of his final compensation for each year of service credited as class A service and 1/55 of his final compensation for each year of service credited as class B service, calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

6. N.J.S.18A:66-44 is amended to read as follows:

Service retirement allowances.

18A:66-44. A member, upon retirement for service, shall receive a retirement allowance consisting of:

(a) an annuity which shall be the actuarial equivalent of his accumulated deductions, together with interest after January 1, 1956, less any excess contributions as provided in N.J.S.18A:66-20; and

(b) a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1/64 of his final compensation for each year of service credited as class A service and 1/55 of his final compensation for each year of service credited as class B service.

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 the member's beneficiary, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service or in the year of the member's highest contractual salary, whichever is higher.

7. N.J.S.18A:66-71 is amended to read as follows:

Retirement allowance for veterans.

18A:66-71. a. Any public employee veteran member in office, position or employment of this State or of a county, municipality, or school district, board of education or other employer who (1) has or shall have attained the age of 60 years and has or shall have been for 20 years continuously or in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer, or (2) has or shall have attained the age of 55 years and has or shall have been for 25 years continuously or in the aggregate in that office, position or employment, shall have the privilege of retiring for service and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-44, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

b. (Deleted by amendment, P.L.1984, c.69.)

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality or school district, board of education or other employer as of January 1, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under N.J.S.18A:66-41, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in N.J.S.18A:66-39 and N.J.S.18A:66-40.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, school district, board of education or other employer and who shall have attained 55 years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of 1/55 of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in N.J.S.18A:66-44 shall apply in the case of any member retiring under the provisions of subsections a. and d. of this section and in the case of any member who has previously retired under the provisions of subsection b. of this section before said subsection was amended by this act. The death benefit provided in N.J.S.18A:66-41 shall apply in the case of any member retiring under the provisions of subsection c. of this section.

f. A member who purchases service credit pursuant to any provision of the "Teachers' Pension and Annuity Fund Law" (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose of satisfying any of the service requirements of that act.

8. Section 22 of P.L.1954, c.84 (C.43:15A-22) is amended to read as follows:

C.43:15A-22 Funds.

22. Under this act there shall be the contingent reserve fund, annuity savings fund, retirement reserve fund, benefit enhancement fund and the special reserve fund.

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

C.43:15A-24 Contingent reserve fund.

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

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

b. With respect to employers other than the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

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

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

Development Authority to fund the unfunded accrued liability of the system. Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1999 shall be the full market value of the assets as of that date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If there are excess valuation assets after reductions in normal contributions and member contributions as authorized in the preceding paragraphs for a valuation period beginning with the valuation period ending June 30, 1999, an amount of excess valuation assets not to exceed the amount of the member contributions for the fiscal year in which the normal contributions are payable shall be credited to the benefit enhancement fund. The amount of excess valuation assets credited to the benefit enhancement fund shall not exceed the present value of the expected additional normal contributions attributable to the provisions of P.L.2001, c.133 payable on behalf of the active members over the expected working lives of the active members in accordance with the tables of actuarial assumptions for the valuation period. No additional excess valuation assets shall be credited to the benefit enhancement fund after the maximum amount is attained. Interest shall be credited to the benefit enhancement fund as provided under section 33 of P.L.1954, c.84 (C.43:15A-33).

The normal contribution for the increased benefits for active employees under P.L.2001, c.133 shall be paid from the benefit enhancement fund. If assets in the benefit enhancement fund are insufficient to pay the normal contribution for the increased benefits for a valuation period, the State shall pay the amount of normal contribution for the increased benefits not covered by assets from the benefit enhancement fund.

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.

10. Section 33 of P.L.1954, c.84 (C.43:15A-33) is amended to read as follows:

C.43:15A-33 Interest on fund balances.

33. The board of trustees at the end of each fiscal year shall allow interest on the balance of the annuity savings fund, contingent reserve fund, the retirement reserve fund, benefit enhancement fund and the members' death benefit fund as of the beginning of said fiscal year at the regular interest rate applicable thereto to cover the interest creditable to the respective funds for the year. The amount so allowed shall be due and payable to said funds and shall be credited annually thereto by the board.

11. Section 38 of P.L.1954, c.84 (C.43:15A-38) is amended to read as follows:

C.43:15A-38 Vesting of PERS members.

38. Should a member of the Public Employees' Retirement System, after having completed 10 years of service, be separated voluntarily or involuntarily from the service, before reaching service retirement age, and not by removal for cause on charges of misconduct or delinquency, such person may elect to receive:

(a) The payments provided for in section 41b. of this act, if he so qualifies under said section, or;

(b) A deferred retirement allowance, beginning at the retirement age, which shall be made up of an annuity derived from the accumulated deductions standing to the credit of the individual member's account in the annuity savings fund at the time of his severance from the service together with regular interest, and a pension which when added to the annuity will produce a total retirement allowance of 1/64 of his final compensation for each year of service credited as Class A service and 1/55 of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 of this act, with optional privileges provided for in section 50 of this act if he exercises such optional privilege at least 30 days before his attainment of the normal retirement age; provided, that such election is communicated by such member to the retirement system in writing stating at what time subsequent to the execution and filing thereof he desires to be retired; and provided further, that such member, as referred to in this subsection may later elect: (1) to receive the payments provided for in section 41b. of this act, if he had qualified under that section at the time of leaving service, except that in order to avail himself of the optional privileges pursuant to section 50, he must exercise such optional privilege at least 30 days before the effective date of his retirement; or (2) to withdraw his accumulated deductions with interest as provided in section 41a. If such member shall die before attaining service retirement age then his accumulated deductions, plus regular interest, shall be paid in accordance with section 41c.; or if such member shall die after attaining service retirement age and has not withdrawn his accumulated deductions, an amount equal to 3/16 of the compensation received by the member in the last year of creditable service shall be paid to such person, if living, as he shall have nominated by written designation duly executed and filed with the retirement system; otherwise to the executor or administrator of the member's estate.

12. Section 41 of P.L.1954, c.84 (C.43:15A-41) is amended to read as follows:

C.43:15A-41 Withdrawal from service; early retirement; death benefits.

41. a. A member who withdraws from service or ceases to be an employee for any cause other than death or retirement shall, upon the filing of an application therefor, receive all of his accumulated deductions standing to the credit of his individual account in the annuity savings fund, plus regular interest, less any outstanding loan, except that for any period after June 30, 1944, the interest payable shall be such proportion of the interest determined at the regular rate of 2% per annum bears to the regular rate of interest, and except that no interest shall be payable in the case of a member who has less than three years of membership credit for which he has made contributions. He shall cease to be a member two years from the date he discontinued service as an eligible employee, or, if prior thereto, upon payment to him of his accumulated deductions. If any such person or member shall die before withdrawing or before endorsing the check constituting the return of his accumulated deductions, such deductions shall be paid to the member's beneficiary. No member shall be entitled to withdraw the amounts contributed by his employer covering his military leave unless he shall have returned to the payroll and contributed to the retirement system for a period of 90 days.

b. Should a member resign after having established 25 years of creditable service before reaching age 60, he may elect "early retirement," provided, that such election is communicated by such member to the retirement system by filing a written application, duly attested, stating at what time subsequent to the execution and filing thereof he desires to be retired. He shall receive, in lieu of the payment provided in subsection a. of this section, an annuity which is the actuarial equivalent of his accumulated deductions together with regular interest, and a pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1/64 of his final compensation for each year of service credited as Class A service and 1/55 of his final compensation for each year of service credited as Class B service, calculated in accordance with section 48 (C. 43:15A-48) of this act, reduced by 1/4 of 1% for each month that the member lacks of being age 55; provided, however, that upon the receipt of proper proofs of the death of such a member there shall be paid to his beneficiary an amount equal to three-sixteenths of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

The board of trustees shall retire him at the time specified or at such other time within one month after the date so specified as the board finds advisable.

c. Upon the receipt of proper proofs of the death of a member in service on account of which no accidental death benefit is payable under section 49 there shall be paid to such member's beneficiary:

(1) The member's accumulated deductions at the time of death together with regular interest; and

(2) An amount equal to one and one-half times the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

13. Section 48 of P.L.1954, c.84 (C.43:15A-48) is amended to read as follows:

C.43:15A-48 Retirement allowance for service.

48. A member, upon retirement for service, shall receive a retirement allowance consisting of:

a. An annuity which shall be the actuarial equivalent of his accumulated deductions together with regular interest; and

b. A pension in the amount which, when added to the member's annuity, will provide a total retirement allowance of 1/64 of his final compensation for each year of service credited as Class A service and 1/55 of his final compensation for each year of service credited as Class B service.

c. 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 the member's beneficiary, an amount equal to 3/16 of the compensation upon which contributions by the member to the annuity savings fund were based in the last year of creditable service.

14. Section 61 of P.L.1954, c.84 (C.43:15A-61) is amended to read as follows:

C.43:15A-61 Public employee veterans' pensions.

61. a. (Deleted by amendment, P.L.1995, c.332.)

b. Any public employee veteran member in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained 62 years of age and who has 20 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving, instead of the retirement allowance provided under section 48 of this act, a retirement allowance of one-half of the compensation for which contributions are made during the 12-month period of membership providing the largest possible benefit to the member or the member's beneficiary.

c. Any public employee veteran member who has been for 20 years in the aggregate in office, position or employment of this State or of a county, municipality, public agency, school district or board of education as of January 2, 1955, shall have the privilege of retiring for ordinary disability and of receiving, instead of the retirement allowance provided under section 45 of this act, a retirement allowance of one-half of the compensation received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made. Such retirement shall be subject to the provisions governing ordinary disability retirement in sections 42 and 44 of this act.

d. Any public employee veteran member who shall be in office, position or employment of this State or of a county, municipality, public agency, school district or board of education and who shall have attained 55 years of age and who has at least 35 years of aggregate service credit in such office, position or employment, shall have the privilege of retiring for service and receiving a retirement allowance of 1/55 of the compensation he received during the last year of employment upon which contributions to the annuity savings fund or contingent reserve fund are made for each year of creditable service.

e. The death benefit provided in section 48 shall apply in the case of any member retiring under the provisions of subsections a., b. and d. of this section. The death benefit provided in section 45 shall apply in the case of any member retiring under the provisions of subsection c. of this section.

C.18A:66-5.1 Increase in TPAF retirement allowance.

15. The retirement allowance of each retiree under N.J.S.18A:66-36, N.J.S.18A:66-37, N.J.S.18A:66-44, and N.J.S.18A:66-71d., or the retiree's beneficiary pursuant to N.J.S.18A:66-47, on the effective date of this act, P.L.2001, c.133, shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L.2001, c.133. The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

C.43:15A-16.1 Increase in PERS retirement allowance.

16. The retirement allowance of each retiree under section 38, subsection b. of section 41, section 48, and subsection d. of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b., C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the effective date of this act, P.L.2001, c.133, shall be increased by a percentage equivalent to the percentage increase in the fraction of final compensation for each year of credited service for the total retirement allowance under these sections made by this act, P.L.2001, c.133. The provisions of section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the increases in retirement allowances provided by this section.

17. This act shall take effect on the first day of the fourth month after the date of enactment.

Approved June 29, 2001.

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TRENTON, NJ 08625

Office of the Governor
NEWS RELEASE

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RELEASE: June 29 , 2001

Acting Governor Donald T. DiFrancesco signed the following legislation today:

S-2450, sponsored by Senators Peter Inverso (R-Mercer/Middlesex) and John Matheussen(R-Camden/Gloucester) and Assemblymembers Nicholas Asselta (R-Cape May/Atlantic/Cumberland) and Joseph Azzolina (R-Middlesex/Monmouth), increases the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and The Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/70 to 1/64 to final compensation for each year of Class A service and from 1/60 to 1/55 of final compensation for each year of Class B service.

The bill also increases the retirement benefit for TPAF and PERS veteran members with 35 or more years of service and reduces the age qualification from 60 to 55.

The bill also provides for a reduction in TPAF member contributions.

S-2465, sponsored by Assemblyman Joseph Malone (R-Burlington/Monmouth/Ocean) and Senator Walter Kavanaugh (R-Morris/Somerset), requires providers of goods and services to the State and its agencies or to casino licensees, and any subcontractor under those State and casino contracts, to register their businesses with the Division of Revenue.

S-1581, sponsored by Senators Gerald Cardinale (R-Bergen) and Richard Codey (R-Essex) and Assemblymen Kip Bateman (R-Morris/Somerset) and Joseph Doria (D-Hudson), allows an existing health service corporation, or any health corporation formed in the future, to convert from a non-profit health service to a for-profit domestic stock health insurer. As a condition of this conversion, the corporation is required to establish a charitable foundation and contribute to it the fair market value of the health service corporation at the time of the conversion to satisfy the charitable obligations of the converting corporation to the people of the State of New Jersey.

S-2298, sponsored by Senators Martha Bark (R-Atlantic/Burlington/Camden) and Bernard Kenny (D-Hudson) and Assemblymembers Paul DiGaetano (R-Bergen/Essex/Passaic) and Joseph Doria (D-Hudson), increases the membership of the Board of Public Utilities (BPU) from three to five members, no more than three of whom are to be of the same political party.

A-3045, sponsored by Senator Anthony Bucco (R-Morris) and Assemblyman Guy Gregg (R-Sussex/Hunterdon/Morris), closes a gap in the administration of the taxes imposed on the owners of limited partnerships and limited liability companies.