

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

Bill and Sponsors Statement identical to S2450

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

6/21/2001 (Approp.)

SENATE: No

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL ESTIMATE: No

LEGISLATIVE FISCAL NOTE Yes

VETO MESSAGE: No

GOVERNOR'S PRESS RELEASE ON SIGNING: Yes

FOLLOWING WERE PRINTED:

To check for circulating copies, contact New Jersey State Government

Publications at the State Library (609) 278-2640 ext.103 or <mailto:refdesk@njstatelib.org>

REPORTS: No

HEARINGS: No

NEWSPAPER ARTICLES: Yes

"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 Holzappel, T.Smith, Thompson, Wolfe, Zecker, Assemblywoman Greenstein, Assemblymen Guear, Kean, R.Smith, Assemblywoman Vandervalk, Assemblyman Arnone, Assemblywoman Weinberg, Assemblymen Barnes, Kelly, Zisa, Conaway, Connors, 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)

S2450 INVERSO, MATHEUSSEN

2

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

5

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

8

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

10 18A:66-16. There shall be in the retirement system the contingent
11 reserve fund, annuity savings fund, retirement reserve fund, pension
12 fund, special reserve fund, interest fund, benefit enhancement fund and
13 the members' death benefit fund.

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

15

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

17 18A:66-18. The contingent reserve fund shall be the fund in which
18 shall be credited contributions made by the State and other employers.

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

27 b. Upon the basis of the tables recommended by the actuary which
28 the board of trustees adopts and regular interest, the actuary of the
29 board shall annually determine if there is an amount of the accrued
30 liability of the retirement system, computed under the projected unit
31 credit method, including the liability for pension adjustment benefits
32 for active employees funded pursuant to section 2 of P.L.1987, c.385
33 (C.18A:66-18.1), which is not already covered by the assets of the
34 retirement system, valued in accordance with the asset valuation
35 method established in this section. This shall be known as the
36 "unfunded accrued liability." If there was no unfunded accrued
37 liability for the valuation period immediately preceding the current
38 valuation period, the actuary, using the total amount of this unfunded
39 accrued liability, shall compute the initial amount of contribution
40 which, if the contribution is increased at a specific rate and paid
41 annually for a specific period of time, will amortize this liability. The
42 State Treasurer shall determine, upon the advice of the Director of the
43 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 thus is new matter.

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

17 The value of the assets to be used in the computation of the
18 contributions provided for under this section for valuation periods
19 shall be the value of the assets for the preceding valuation period
20 increased by the regular interest rate, plus the net cash flow for the
21 valuation period (the difference between the benefits and expenses
22 paid by the system and the contributions to the system) increased by
23 one half of the regular interest rate, plus 20% of the difference
24 between this expected value and the full market value of the assets as
25 of the end of the valuation period. This shall be known as the
26 "valuation assets." Notwithstanding the first sentence of this
27 paragraph, the valuation assets for the valuation period ending
28 March 31, 1996 shall be the full market value of the assets as of that
29 date and shall include the proceeds from the bonds issued pursuant to
30 the Pension Bond Financing Act of 1997, P.L.1997, c.114
31 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey
32 Economic Development Authority to fund the unfunded accrued
33 liability of the system. Notwithstanding the first sentence of this
34 paragraph, the valuation assets for the valuation period ending June
35 30, 1999 shall be the full market value of the assets as of that date.

36 "Excess valuation assets" for a valuation period means:

- 37 (1) the valuation assets; less
38 (2) the actuarial accrued liability for basic benefits and pension
39 adjustment benefits, excluding the unfunded accrued liability for early
40 retirement incentive benefits pursuant to P.L.1991, c.231 and
41 P.L.1993, c.163 for employers other than the State; less
42 (3) the contributory group insurance premium fund created by
43 N.J.S.18A:66-77; less
44 (4) the post-retirement medical premium fund created pursuant to
45 section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section
46 3 of P.L.1994, c.62; less

1 (5) the present value of the projected total normal cost for pension
2 adjustment benefits in excess of the projected total phased-in normal
3 cost for pension adjustment benefits as originally authorized by section
4 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period,
5 determined in the manner prescribed for the determination and
6 amortization of the unfunded accrued liability of the system, if the sum
7 of the foregoing items is greater than zero.

8 If there are excess valuation assets for the valuation period ending
9 March 31, 1996, the normal contributions for the valuation periods
10 ending March 31, 1996 and March 31, 1997 which have not yet been
11 paid to the retirement system shall be reduced to the extent possible
12 by the excess valuation assets, provided that the General Fund
13 balances that would have been paid to the retirement system except for
14 this provision shall first be allocated as State aid to public schools to
15 the extent that additional sums are required to comply with the May
16 14, 1997 decision of the New Jersey Supreme Court in Abbott v.
17 Burke, and provided further that the normal contribution for the
18 valuation period ending March 31, 1996 shall not be less than
19 \$54,000,000. If there are excess valuation assets for a valuation
20 period ending after March 31, 1996, the State Treasurer may reduce
21 the normal contribution payable for the next valuation period as
22 follows:

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

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

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

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

32 For calendar years 1998 and 1999, the rate of contribution of
33 members of the retirement system under N.J.S.18A:66-29 shall be
34 reduced by 1/2 of 1% from excess valuation assets. For calendar years
35 2000 and 2001, the rate of contribution of members of the retirement
36 system shall be reduced equally with normal contributions to the extent
37 possible, but not more than 1/2 of 1%, from excess valuation assets.
38 Thereafter, the rate of contribution of members of the retirement
39 system under that section for a calendar year shall be reduced equally
40 with normal contributions to the extent possible, but not by more than
41 ~~[1/2 of 1%]~~ 2%, from excess valuation assets if the State Treasurer
42 determines that excess valuation assets shall be used to reduce normal
43 contributions by the State for the fiscal year beginning immediately
44 prior to the calendar year, and excess valuation assets above the
45 amount necessary to fund the reduction for that calendar year in the
46 member contribution rate plus an equal reduction in the normal

1 contribution shall be available for the further reduction of normal
2 contributions, subject to the limitations prescribed by this subsection.

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

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

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

27 d. The retirement system shall certify annually the aggregate
28 amount payable to the contingent reserve fund in the ensuing year,
29 which amount shall be equal to the sum of the amounts described in
30 this section, and which shall be paid into the contingent reserve fund
31 in the manner provided by section 18A:66-33.

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

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

39 (cf: P.L.1997, c.115, s.1)

40

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

42 18A:66-25. The board of trustees at the end of each fiscal year
43 shall allow interest on the balance of the contingent reserve fund, the
44 annuity savings fund, the retirement reserve fund, pension fund, benefit
45 enhancement fund and the members' death benefit fund as of the
46 beginning of said fiscal year at the regular interest rate applicable

1 thereto to cover the interest creditable to the respective funds for the
2 year. The amount so allowed shall be due and payable to said funds
3 and shall be credited annually thereto by the board.

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

5

6

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

8 18A:66-36. Should a member of the Teachers' Pension and Annuity
9 Fund, after having completed 10 years of service, be separated
10 voluntarily or involuntarily from the service, before reaching service
11 retirement age, and not by removal for conduct unbecoming a teacher
12 or other just cause under the provisions of sections 18A:28-4 to
13 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect
14 to receive, in lieu of the payment provided in section 18A:66-34:

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

17 b. A deferred retirement allowance beginning at age 60, which shall
18 be made up of an annuity derived from the member's accumulated
19 deductions at the time of his severance from the service, and a pension
20 in the amount which, when added to the member's annuity, will
21 provide a total retirement allowance of ~~[1/70]~~ 1/64 of his final
22 compensation for each year of service credited as Class A service and
23 ~~[1/60]~~ 1/55 of his final compensation for each year of service
24 credited as class B service, calculated in accordance with section
25 18A:66-44, with optional privileges provided for in section 18A:66-47
26 if he exercises such optional privilege at least 30 days before his
27 attainment of the normal retirement age; provided, that such election
28 is communicated by such member to the retirement system in writing
29 stating at what time subsequent to the execution and filing thereof he
30 desires to be retired; and provided, further, that such member may
31 later elect: (1) to receive the payments provided for in section
32 18A:66-37, if he had qualified under that section at the time of leaving
33 service, except that in order to avail himself of the optional privileges
34 pursuant to section 18A:66-47, he must exercise such optional
35 privilege at least 30 days before the effective date of his retirement; or
36 (2) to withdraw his accumulated deductions with interest as provided
37 in section 18A:66-34. If such member shall die before attaining
38 service retirement age, then his accumulated deductions, plus regular
39 interest after January 1, 1956, shall be paid in accordance with section
40 18A:66-38, and, in addition if such member shall die after attaining
41 service retirement age and has not withdrawn his accumulated
42 deductions, an amount equal to 3/16 of the compensation upon which
43 contributions by the member to the annuity savings fund were based
44 in the last year of creditable service shall be paid to such member's
45 beneficiary.

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

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

12

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

14 18A:66-37. Should a member resign after having established
15 25 years of creditable service before reaching age 60, he may elect
16 "early retirement," provided, that such election is communicated by
17 such member to the retirement system by filing a written application,
18 duly attested, stating at what time subsequent to the execution and
19 filing thereof he desires to be retired. He shall receive, in lieu of the
20 payment provided in N.J.S.18A:66-34, an annuity which is the
21 actuarial equivalent of his accumulated deductions and a pension in the
22 amount which, when added to the member's annuity, will provide a
23 total retirement allowance of ~~1/70~~ 1/64 of his final compensation for
24 each year of service credited as class A service and ~~1/60~~ 1/55 of his
25 final compensation for each year of service credited as class B service,
26 calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1%
27 for each month that the member lacks of being age 55; provided,
28 however, that upon the receipt of proper proofs of the death of such
29 a member there shall be paid to his beneficiary an amount equal to
30 3/16 of the compensation upon which contributions by the member to
31 the annuity savings fund were based in the last year of creditable
32 service or in the year of the member's highest contractual salary,
33 whichever is higher.

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

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

38

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

40 18A:66-44. A member, upon retirement for service, shall receive a
41 retirement allowance consisting of:

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

45 (b) a pension in the amount which, when added to the member's
46 annuity, will provide a total retirement allowance of ~~1/70~~ 1/64 of his

1 final compensation for each year of service credited as class A service
2 and ~~1/60~~ 1/55 of his final compensation for each year of service
3 credited as class B service.

4 Upon the receipt of proper proofs of the death of a member who
5 has retired on a service retirement allowance, there shall be paid to the
6 member's beneficiary, an amount equal to 3/16 of the compensation
7 upon which contributions by the member to the annuity savings fund
8 were based in the last year of creditable service or in the year of the
9 member's highest contractual salary, whichever is higher.

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

11
12 7. N.J.S.18A:66-71 is amended to read as follows:

13 18A:66-71. a. Any public employee veteran member in office,
14 position or employment of this State or of a county, municipality, or
15 school district, board of education or other employer who (1) has or
16 shall have attained the age of 60 years and has or shall have been for
17 20 years continuously or in the aggregate in office, position or
18 employment of this State or of a county, municipality or school
19 district, board of education or other employer, or (2) has or shall have
20 attained the age of 55 years and has or shall have been for 25 years
21 continuously or in the aggregate in that office, position or
22 employment, shall have the privilege of retiring for service and of
23 receiving, instead of the retirement allowance provided under
24 N.J.S.18A:66-44, a retirement allowance of one-half of the
25 compensation for which contributions are made during the 12-month
26 period of membership providing the largest possible benefit to the
27 member or the member's beneficiary.

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

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

40 d. Any public employee veteran member who shall be in office,
41 position or employment of this State or of a county, municipality,
42 school district, board of education or other employer and who shall
43 have attained ~~60~~ 55 years of age and who has at least 35 years of
44 aggregate service credit in such office, position or employment, shall
45 have the privilege of retiring for service and receiving a retirement
46 allowance of ~~one-sixtieth~~ 1/55 of the compensation he received

1 during the last year of employment upon which contributions to the
2 annuity savings fund or contingent reserve fund are made for each year
3 of creditable service.

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

11 f. A member who purchases service credit pursuant to any
12 provision of the "Teachers' Pension and Annuity Fund Law"
13 (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose
14 of satisfying any of the service requirements of that act.
15 (cf: P.L.1995, c.332, s.1)

16

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

19 22. Under this act there shall be the contingent reserve fund,
20 annuity savings fund, retirement reserve fund, benefit enhancement
21 fund and the special reserve fund.
22 (cf: P.L.1963, c.51, s.1)

23

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

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

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

36 b. With respect to employers other than the State, upon the basis
37 of the tables recommended by the actuary which the board adopts and
38 regular interest, the actuary shall compute the amount of the accrued
39 liability of the retirement system as of March 31, 1992 under the
40 projected unit credit method, excluding the liability for pension
41 adjustment benefits for active employees funded pursuant to section
42 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by
43 the assets of the retirement system, valued in accordance with the asset
44 valuation method established in this section. Using the total amount of
45 this unfunded accrued liability, the actuary shall compute the initial
46 amount of contribution which, if the contribution is increased at a

1 specific rate and paid annually for a specific period of time, will
2 amortize this liability. The State Treasurer shall determine, upon the
3 advice of the Director of the Division of Pensions and Benefits, the
4 board of trustees and the actuary, the rate of increase for the
5 contribution and the time period for full funding of this liability, which
6 shall not exceed 40 years on initial application of this section as
7 amended by this act, P.L.1994, c.62. This shall be known as the
8 "accrued liability contribution." Any increase or decrease in the
9 unfunded accrued liability as a result of actuarial losses or gains for the
10 10 valuation years following valuation year 1992 shall serve to
11 increase or decrease, respectively, the unfunded accrued liability
12 contribution. Thereafter, any increase or decrease in the unfunded
13 accrued liability as a result of actuarial losses or gains for subsequent
14 valuation years shall serve to increase or decrease, respectively, the
15 amortization period for the unfunded accrued liability, unless an
16 increase in the amortization period will cause it to exceed 30 years.
17 If an increase in the amortization period as a result of actuarial losses
18 for a valuation year would exceed 30 years, the accrued liability
19 contribution shall be computed for the valuation year in the same
20 manner provided for the computation of the initial accrued liability
21 contribution under this section.

22 With respect to the State, upon the basis of the tables recommended
23 by the actuary which the commission adopts and regular interest, the
24 actuary shall annually determine if there is an amount of the accrued
25 liability of the retirement system, computed under the projected unit
26 credit method, which is not already covered by the assets of the
27 retirement system, valued in accordance with the asset valuation
28 method established in this section. This shall be known as the
29 "unfunded accrued liability." If there was no unfunded accrued
30 liability for the valuation period immediately preceding the current
31 valuation period, the actuary, using the total amount of this unfunded
32 accrued liability, shall compute the initial amount of contribution
33 which, if the contribution is increased at a specific rate and paid
34 annually for a specific period of time, will amortize this liability. The
35 State Treasurer shall determine, upon the advice of the Director of the
36 Division of Pensions and Benefits, the commission and the actuary, the
37 rate of increase for the contribution and the time period for full
38 funding of this liability, which shall not exceed 30 years. This shall be
39 known as the "accrued liability contribution." Thereafter, any increase
40 or decrease in the unfunded accrued liability as a result of actuarial
41 losses or gains for subsequent valuation years shall serve to increase
42 or decrease, respectively, the amortization period for the unfunded
43 accrued liability, unless an increase in the amortization period will
44 cause it to exceed 30 years. If an increase in the amortization period
45 as a result of actuarial losses for a valuation year would exceed 30
46 years, the accrued liability contribution shall be computed for the

1 valuation year in the same manner provided for the computation of the
2 initial accrued liability contribution under this section. The State may
3 pay all or any portion of its unfunded accrued liability under the
4 retirement system from any source of funds legally available for the
5 purpose. including, without limitation, the proceeds of bonds
6 authorized by law for this purpose.

7 The value of the assets to be used in the computation of the
8 contributions provided for under this section for valuation periods
9 shall be the value of the assets for the preceding valuation period
10 increased by the regular interest rate, plus the net cash flow for the
11 valuation period (the difference between the benefits and expenses
12 paid by the system and the contributions to the system) increased by
13 one half of the regular interest rate, plus 20% of the difference
14 between this expected value and the full market value of the assets as
15 of the end of the valuation period. This shall be known as the
16 "valuation assets." Notwithstanding the first sentence of this
17 paragraph, the valuation assets for the valuation period ending March
18 31, 1996 shall be the full market value of the assets as of that date and,
19 with respect to the valuation assets allocated to the State, shall include
20 the proceeds from the bonds issued pursuant to the "Pension Bond
21 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
22 to the system by the New Jersey Economic Development Authority to
23 fund the unfunded accrued liability of the system. [Notwithstanding
24 the first sentence of this paragraph, the amount of the difference
25 between the expected value and the full market value of the assets to
26 be added to the expected value of the assets for the valuation period
27 ending June 30, 1999 shall include an additional amount of the market
28 value of the assets sufficient to fund the unfunded accrued liability for
29 the supplementary "special" retirement allowances provided under
30 section 4 of P.L.2001, c.4 (C.43:15A-100.1).] Notwithstanding the
31 first sentence of this paragraph, the valuation assets for the valuation
32 period ending June 30, 1999 shall be the full market value of the assets
33 as of that date.

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

- 36 (1) the valuation assets allocated to the State; less
- 37 (2) the actuarial accrued liability of the State for basic benefits and
38 pension adjustment benefits under the retirement system; less
- 39 (3) the contributory group insurance premium fund, created by
40 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
41 of P.L.1960, c.79; less
- 42 (4) the post retirement medical premium fund, created pursuant to
43 section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8
44 of P.L.1994, c.62; less
- 45 (5) the present value of the projected total normal cost for pension
46 adjustment benefits in excess of the projected total phased-in normal

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

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

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

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

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

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

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

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

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

1 State or to the other employers, respectively;

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

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

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

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

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

1 contribution for the increased benefits for a valuation period, the State
2 shall pay the amount of normal contribution for the increased benefits
3 not covered by assets from the benefit enhancement fund.

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

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

15 (cf: P.L.2001, c.4, s.5)

16

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

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

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

28

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

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

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

38 (b) A deferred retirement allowance, beginning at the retirement
39 age, which shall be made up of an annuity derived from the
40 accumulated deductions standing to the credit of the individual
41 member's account in the annuity savings fund at the time of his
42 severance from the service together with regular interest, and a
43 pension which when added to the annuity will produce a total
44 retirement allowance of [~~1/70~~] 1/64 of his final compensation for
45 each year of service credited as Class A service and [~~1/60~~] 1/55 of
46 his final compensation for each year of service credited as Class B

1 service, calculated in accordance with section 48 of this act, with
2 optional privileges provided for in section 50 of this act if he exercises
3 such optional privilege at least 30 days before his attainment of the
4 normal retirement age; provided, that such election is communicated
5 by such member to the retirement system in writing stating at what
6 time subsequent to the execution and filing thereof he desires to be
7 retired; and provided further, that such member, as referred to in this
8 subsection may later elect: (1) to receive the payments provided for
9 in section 41b. of this act, if he had qualified under that section at the
10 time of leaving service, except that in order to avail himself of the
11 optional privileges pursuant to section 50, he must exercise such
12 optional privilege at least 30 days before the effective date of his
13 retirement; or (2) to withdraw his accumulated deductions with
14 interest as provided in section 41a. If such member shall die before
15 attaining service retirement age then his accumulated deductions, plus
16 regular interest, shall be paid in accordance with section 41c.; or if
17 such member shall die after attaining service retirement age and has
18 not withdrawn his accumulated deductions, an amount equal to 3/16
19 of the compensation received by the member in the last year of
20 creditable service shall be paid to such person, if living, as he shall
21 have nominated by written designation duly executed and filed with the
22 retirement system; otherwise to the executor or administrator of the
23 member's estate.

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

25

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

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

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

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

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

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

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

32 (cf: P.L.1987, c.1, s.1)

33

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

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

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

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

45 c. Upon the receipt of proper proofs of the death of a member who
46 has retired on a service retirement allowance, there shall be paid to the

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

4 (cf: P.L.1971, c.213, s.22)

5

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

8

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

9

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

19

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

30

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

40

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

45

(cf: P.L.1995, c.332, s.2)

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

12
13 16. (New section) The retirement allowance of each retiree under
14 section 38, subsection b. of section 41, section 48, and subsection d.
15 of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b.,
16 C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary
17 pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the
18 effective date of this act, P.L. , c. (now pending before the
19 Legislature as this bill), shall be increased by a percentage equivalent
20 to the percentage increase in the fraction of final compensation for
21 each year of credited service for the total retirement allowance under
22 these sections made by this act, P.L. , c. . The provisions of
23 section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the
24 increases in retirement allowances provided by this section.

25
26 17. This act shall take effect on the first day of the fourth month
27 after the date of enactment.

28 29 30 STATEMENT

31
32 This bill increases the retirement benefits under the Teachers'
33 Pension and Annuity Fund (TPAF) and the Public Employees'
34 Retirement System (PERS) for service, deferred and early retirement
35 by changing the formula from 1/70 to 1/64 of final compensation for
36 each year of Class A service and from 1/60 to 1/55 of final
37 compensation for each year of Class B service. Class B service has
38 been the type of membership for TPAF and PERS members since the
39 mid-1950s. The bill also increases the retirement benefit for TPAF and
40 PERS veteran members with 35 or more years of service and reduces
41 the age qualification from 60 to 55. The bill further provides that
42 existing retirees and beneficiaries would also receive a comparable
43 percentage increase in their retirement allowances.

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

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

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

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

27 According to the July 1, 1999 TPAF and PERS valuation reports,
28 the market value of TPAF assets exceeded the actuarial value of those
29 assets by over \$5 billion and the market value of PERS assets
30 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	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost			
<i>Retirement Benefits</i>	no direct cost	no direct cost	no direct cost
<i>Administrative Costs</i>	\$500,000	-0-	-0-
Local Cost			
<i>Retirement Benefits</i>	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.

- ! 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

Additional Liabilities Created by S-2450

	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

- ! 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.

S2450

6

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:

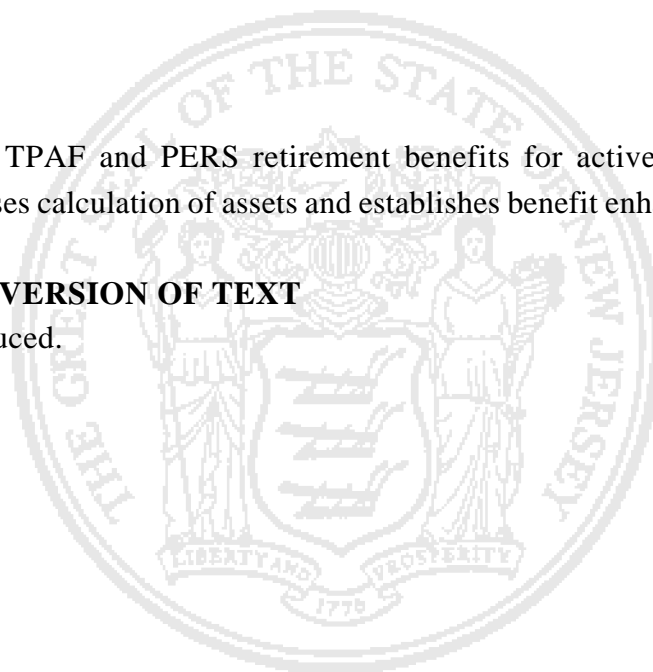
Assemblymen Geist, Corodemus, DiGaetano, Assemblywoman Farragher, Assemblymen Felice, Gibson, Assemblywoman Heck, Assemblymen Holzapfel, T.Smith, Thompson, Wolfe, Zecker, Assemblywoman Greenstein, Assemblymen Guear, Kean, R.Smith, Assemblywoman Vandervalk, Assemblyman Arnone, Assemblywoman Weinberg, 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)

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

5

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

8

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

10 18A:66-16. There shall be in the retirement system the contingent
11 reserve fund, annuity savings fund, retirement reserve fund, pension
12 fund, special reserve fund, interest fund, benefit enhancement fund and
13 the members' death benefit fund.

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

15

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

17 18A:66-18. The contingent reserve fund shall be the fund in which
18 shall be credited contributions made by the State and other employers.

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

27 b. Upon the basis of the tables recommended by the actuary which
28 the board of trustees adopts and regular interest, the actuary of the
29 board shall annually determine if there is an amount of the accrued
30 liability of the retirement system, computed under the projected unit
31 credit method, including the liability for pension adjustment benefits
32 for active employees funded pursuant to section 2 of P.L.1987, c.385
33 (C.18A:66-18.1), which is not already covered by the assets of the
34 retirement system, valued in accordance with the asset valuation
35 method established in this section. This shall be known as the
36 "unfunded accrued liability." If there was no unfunded accrued
37 liability for the valuation period immediately preceding the current
38 valuation period, the actuary, using the total amount of this unfunded
39 accrued liability, shall compute the initial amount of contribution
40 which, if the contribution is increased at a specific rate and paid
41 annually for a specific period of time, will amortize this liability. The
42 State Treasurer shall determine, upon the advice of the Director of the
43 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 thus is new matter.

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

17 The value of the assets to be used in the computation of the
18 contributions provided for under this section for valuation periods
19 shall be the value of the assets for the preceding valuation period
20 increased by the regular interest rate, plus the net cash flow for the
21 valuation period (the difference between the benefits and expenses
22 paid by the system and the contributions to the system) increased by
23 one half of the regular interest rate, plus 20% of the difference
24 between this expected value and the full market value of the assets as
25 of the end of the valuation period. This shall be known as the
26 "valuation assets." Notwithstanding the first sentence of this
27 paragraph, the valuation assets for the valuation period ending
28 March 31, 1996 shall be the full market value of the assets as of that
29 date and shall include the proceeds from the bonds issued pursuant to
30 the Pension Bond Financing Act of 1997, P.L.1997, c.114
31 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey
32 Economic Development Authority to fund the unfunded accrued
33 liability of the system. Notwithstanding the first sentence of this
34 paragraph, the valuation assets for the valuation period ending June
35 30, 1999 shall be the full market value of the assets as of that date.

36 "Excess valuation assets" for a valuation period means:

- 37 (1) the valuation assets; less
- 38 (2) the actuarial accrued liability for basic benefits and pension
39 adjustment benefits, excluding the unfunded accrued liability for early
40 retirement incentive benefits pursuant to P.L.1991, c.231 and
41 P.L.1993, c.163 for employers other than the State; less
- 42 (3) the contributory group insurance premium fund created by
43 N.J.S.18A:66-77; less
- 44 (4) the post-retirement medical premium fund created pursuant to
45 section 2 of P.L.1987, c.385 (C.18A:66-18.1), as amended by section
46 3 of P.L.1994, c.62; less

1 (5) the present value of the projected total normal cost for pension
2 adjustment benefits in excess of the projected total phased-in normal
3 cost for pension adjustment benefits as originally authorized by section
4 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period,
5 determined in the manner prescribed for the determination and
6 amortization of the unfunded accrued liability of the system, if the sum
7 of the foregoing items is greater than zero.

8 If there are excess valuation assets for the valuation period ending
9 March 31, 1996, the normal contributions for the valuation periods
10 ending March 31, 1996 and March 31, 1997 which have not yet been
11 paid to the retirement system shall be reduced to the extent possible
12 by the excess valuation assets, provided that the General Fund
13 balances that would have been paid to the retirement system except for
14 this provision shall first be allocated as State aid to public schools to
15 the extent that additional sums are required to comply with the
16 May 14, 1997 decision of the New Jersey Supreme Court in Abbott v.
17 Burke, and provided further that the normal contribution for the
18 valuation period ending March 31, 1996 shall not be less than
19 \$54,000,000. If there are excess valuation assets for a valuation
20 period ending after March 31, 1996, the State Treasurer may reduce
21 the normal contribution payable for the next valuation period as
22 follows:

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

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

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

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

32 For calendar years 1998 and 1999, the rate of contribution of
33 members of the retirement system under N.J.S.18A:66-29 shall be
34 reduced by 1/2 of 1% from excess valuation assets. For calendar years
35 2000 and 2001, the rate of contribution of members of the retirement
36 system shall be reduced equally with normal contributions to the extent
37 possible, but not more than 1/2 of 1%, from excess valuation assets.
38 Thereafter, the rate of contribution of members of the retirement
39 system under that section for a calendar year shall be reduced equally
40 with normal contributions to the extent possible, but not by more than
41 ~~[1/2 of 1%]~~ 2%, from excess valuation assets if the State Treasurer
42 determines that excess valuation assets shall be used to reduce normal
43 contributions by the State for the fiscal year beginning immediately
44 prior to the calendar year, and excess valuation assets above the
45 amount necessary to fund the reduction for that calendar year in the
46 member contribution rate plus an equal reduction in the normal

1 contribution shall be available for the further reduction of normal
2 contributions, subject to the limitations prescribed by this subsection.

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

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

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

27 d. The retirement system shall certify annually the aggregate
28 amount payable to the contingent reserve fund in the ensuing year,
29 which amount shall be equal to the sum of the amounts described in
30 this section, and which shall be paid into the contingent reserve fund
31 in the manner provided by section 18A:66-33.

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

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

39 (cf: P.L.1997, c.115, s.1)

40

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

42 18A:66-25. The board of trustees at the end of each fiscal year
43 shall allow interest on the balance of the contingent reserve fund, the
44 annuity savings fund, the retirement reserve fund, pension fund, benefit
45 enhancement fund and the members' death benefit fund as of the
46 beginning of said fiscal year at the regular interest rate applicable

1 thereto to cover the interest creditable to the respective funds for the
2 year. The amount so allowed shall be due and payable to said funds
3 and shall be credited annually thereto by the board.

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

5
6 4. N.J.S.18A:66-36 is amended to read as follows:

7 18A:66-36. Should a member of the Teachers' Pension and Annuity
8 Fund, after having completed 10 years of service, be separated
9 voluntarily or involuntarily from the service, before reaching service
10 retirement age, and not by removal for conduct unbecoming a teacher
11 or other just cause under the provisions of sections 18A:28-4 to
12 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect
13 to receive, in lieu of the payment provided in section 18A:66-34:

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

16 b. A deferred retirement allowance beginning at age 60, which shall
17 be made up of an annuity derived from the member's accumulated
18 deductions at the time of his severance from the service, and a pension
19 in the amount which, when added to the member's annuity, will
20 provide a total retirement allowance of ~~[1/70]~~ 1/64 of his final
21 compensation for each year of service credited as Class A service and
22 ~~[1/60]~~ 1/55 of his final compensation for each year of service
23 credited as class B service, calculated in accordance with section
24 18A:66-44, with optional privileges provided for in section 18A:66-47
25 if he exercises such optional privilege at least 30 days before his
26 attainment of the normal retirement age; provided, that such election
27 is communicated by such member to the retirement system in writing
28 stating at what time subsequent to the execution and filing thereof he
29 desires to be retired; and provided, further, that such member may
30 later elect: (1) to receive the payments provided for in section
31 18A:66-37, if he had qualified under that section at the time of leaving
32 service, except that in order to avail himself of the optional privileges
33 pursuant to section 18A:66-47, he must exercise such optional
34 privilege at least 30 days before the effective date of his retirement; or
35 (2) to withdraw his accumulated deductions with interest as provided
36 in section 18A:66-34. If such member shall die before attaining
37 service retirement age, then his accumulated deductions, plus regular
38 interest after January 1, 1956, shall be paid in accordance with section
39 18A:66-38, and, in addition if such member shall die after attaining
40 service retirement age and has not withdrawn his accumulated
41 deductions, an amount equal to 3/16 of the compensation upon which
42 contributions by the member to the annuity savings fund were based
43 in the last year of creditable service shall be paid to such member's
44 beneficiary.

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

1 system while under the age of 60, shall thereupon be reenrolled. If he
2 had discontinued his service for more than 2 consecutive years,
3 subsequent contributions shall be at a rate applicable to the age
4 resulting from the subtraction of his years of creditable service at the
5 time of his last discontinuance of contributing membership from his
6 age at the time of his return to service. He shall be credited with all
7 service as a member standing to his credit at the time of his election to
8 receive a deferred retirement allowance.

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

10

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

12 18A:66-37. Should a member resign after having established
13 25 years of creditable service before reaching age 60, he may elect
14 "early retirement," provided, that such election is communicated by
15 such member to the retirement system by filing a written application,
16 duly attested, stating at what time subsequent to the execution and
17 filing thereof he desires to be retired. He shall receive, in lieu of the
18 payment provided in N.J.S.18A:66-34, an annuity which is the
19 actuarial equivalent of his accumulated deductions and a pension in the
20 amount which, when added to the member's annuity, will provide a
21 total retirement allowance of ~~1/70~~ 1/64 of his final compensation for
22 each year of service credited as class A service and ~~1/60~~ 1/55 of his
23 final compensation for each year of service credited as class B service,
24 calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1%
25 for each month that the member lacks of being age 55; provided,
26 however, that upon the receipt of proper proofs of the death of such
27 a member there shall be paid to his beneficiary an amount equal to
28 3/16 of the compensation upon which contributions by the member to
29 the annuity savings fund were based in the last year of creditable
30 service or in the year of the member's highest contractual salary,
31 whichever is higher.

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

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

36

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

38 18A:66-44. A member, upon retirement for service, shall receive a
39 retirement allowance consisting of:

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

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

1 credited as class B service.

2 Upon the receipt of proper proofs of the death of a member who
3 has retired on a service retirement allowance, there shall be paid to the
4 member's beneficiary, an amount equal to $\frac{3}{16}$ of the compensation
5 upon which contributions by the member to the annuity savings fund
6 were based in the last year of creditable service or in the year of the
7 member's highest contractual salary, whichever is higher.

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

9

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

11 18A:66-71. a. Any public employee veteran member in office,
12 position or employment of this State or of a county, municipality, or
13 school district, board of education or other employer who (1) has or
14 shall have attained the age of 60 years and has or shall have been for
15 20 years continuously or in the aggregate in office, position or
16 employment of this State or of a county, municipality or school
17 district, board of education or other employer, or (2) has or shall have
18 attained the age of 55 years and has or shall have been for 25 years
19 continuously or in the aggregate in that office, position or
20 employment, shall have the privilege of retiring for service and of
21 receiving, instead of the retirement allowance provided under
22 N.J.S.18A:66-44, a retirement allowance of one-half of the
23 compensation for which contributions are made during the 12-month
24 period of membership providing the largest possible benefit to the
25 member or the member's beneficiary.

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

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

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

1 of creditable service.

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

9 f. A member who purchases service credit pursuant to any
10 provision of the "Teachers' Pension and Annuity Fund Law"
11 (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose
12 of satisfying any of the service requirements of that act.
13 (cf: P.L.1995, c.332, s.1)

14

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

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

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

21

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

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

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

34 b. With respect to employers other than the State, upon the basis
35 of the tables recommended by the actuary which the board adopts and
36 regular interest, the actuary shall compute the amount of the accrued
37 liability of the retirement system as of March 31, 1992 under the
38 projected unit credit method, excluding the liability for pension
39 adjustment benefits for active employees funded pursuant to section
40 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by
41 the assets of the retirement system, valued in accordance with the asset
42 valuation method established in this section. Using the total amount of
43 this unfunded accrued liability, the actuary shall compute the initial
44 amount of contribution which, if the contribution is increased at a
45 specific rate and paid annually for a specific period of time, will
46 amortize this liability. The State Treasurer shall determine, upon the

1 advice of the Director of the Division of Pensions and Benefits, the
2 board of trustees and the actuary, the rate of increase for the
3 contribution and the time period for full funding of this liability, which
4 shall not exceed 40 years on initial application of this section as
5 amended by this act, P.L.1994, c.62. This shall be known as the
6 "accrued liability contribution." Any increase or decrease in the
7 unfunded accrued liability as a result of actuarial losses or gains for the
8 10 valuation years following valuation year 1992 shall serve to
9 increase or decrease, respectively, the unfunded accrued liability
10 contribution. Thereafter, any increase or decrease in the unfunded
11 accrued liability as a result of actuarial losses or gains for subsequent
12 valuation years shall serve to increase or decrease, respectively, the
13 amortization period for the unfunded accrued liability, unless an
14 increase in the amortization period will cause it to exceed 30 years.
15 If an increase in the amortization period as a result of actuarial losses
16 for a valuation year would exceed 30 years, the accrued liability
17 contribution shall be computed for the valuation year in the same
18 manner provided for the computation of the initial accrued liability
19 contribution under this section.

20 With respect to the State, upon the basis of the tables recommended
21 by the actuary which the commission adopts and regular interest, the
22 actuary shall annually determine if there is an amount of the accrued
23 liability of the retirement system, computed under the projected unit
24 credit method, which is not already covered by the assets of the
25 retirement system, valued in accordance with the asset valuation
26 method established in this section. This shall be known as the
27 "unfunded accrued liability." If there was no unfunded accrued
28 liability for the valuation period immediately preceding the current
29 valuation period, the actuary, using the total amount of this unfunded
30 accrued liability, shall compute the initial amount of contribution
31 which, if the contribution is increased at a specific rate and paid
32 annually for a specific period of time, will amortize this liability. The
33 State Treasurer shall determine, upon the advice of the Director of the
34 Division of Pensions and Benefits, the commission and the actuary, the
35 rate of increase for the contribution and the time period for full
36 funding of this liability, which shall not exceed 30 years. This shall be
37 known as the "accrued liability contribution." Thereafter, any increase
38 or decrease in the unfunded accrued liability as a result of actuarial
39 losses or gains for subsequent valuation years shall serve to increase
40 or decrease, respectively, the amortization period for the unfunded
41 accrued liability, unless an increase in the amortization period will
42 cause it to exceed 30 years. If an increase in the amortization period
43 as a result of actuarial losses for a valuation year would exceed 30
44 years, the accrued liability contribution shall be computed for the
45 valuation year in the same manner provided for the computation of the
46 initial accrued liability contribution under this section. The State may

1 pay all or any portion of its unfunded accrued liability under the
2 retirement system from any source of funds legally available for the
3 purpose. including, without limitation, the proceeds of bonds
4 authorized by law for this purpose.

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

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

- 34 (1) the valuation assets allocated to the State; less
- 35 (2) the actuarial accrued liability of the State for basic benefits and
36 pension adjustment benefits under the retirement system; less
- 37 (3) the contributory group insurance premium fund, created by
38 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
39 of P.L.1960, c.79; less
- 40 (4) the post retirement medical premium fund, created pursuant to
41 section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8
42 of P.L.1994, c.62; less
- 43 (5) the present value of the projected total normal cost for pension
44 adjustment benefits in excess of the projected total phased-in normal
45 cost for pension adjustment benefits for the State authorized by
46 section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full phase-in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 The normal contribution for the increased benefits for active
42 employees under P.L. , c. (now pending before the Legislature as
43 this bill) shall be paid from the benefit enhancement fund. If assets in
44 the benefit enhancement fund are insufficient to pay the normal
45 contribution for the increased benefits for a valuation period, the State
46 shall pay the amount of normal contribution for the increased benefits

1 not covered by assets from the benefit enhancement fund.

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

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

13 (cf: P.L.2001, c.4, s.5)

14

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

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

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

26

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

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

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

36 (b) A deferred retirement allowance, beginning at the retirement
37 age, which shall be made up of an annuity derived from the
38 accumulated deductions standing to the credit of the individual
39 member's account in the annuity savings fund at the time of his
40 severance from the service together with regular interest, and a
41 pension which when added to the annuity will produce a total
42 retirement allowance of ~~[1/70]~~ 1/64 of his final compensation for each
43 year of service credited as Class A service and ~~[1/60]~~ 1/55 of his final
44 compensation for each year of service credited as Class B service,
45 calculated in accordance with section 48 of this act, with optional
46 privileges provided for in section 50 of this act if he exercises such

1 optional privilege at least 30 days before his attainment of the normal
2 retirement age; provided, that such election is communicated by such
3 member to the retirement system in writing stating at what time
4 subsequent to the execution and filing thereof he desires to be retired;
5 and provided further, that such member, as referred to in this
6 subsection may later elect: (1) to receive the payments provided for
7 in section 41b. of this act, if he had qualified under that section at the
8 time of leaving service, except that in order to avail himself of the
9 optional privileges pursuant to section 50, he must exercise such
10 optional privilege at least 30 days before the effective date of his
11 retirement; or (2) to withdraw his accumulated deductions with
12 interest as provided in section 41a. If such member shall die before
13 attaining service retirement age then his accumulated deductions, plus
14 regular interest, shall be paid in accordance with section 41c.; or if
15 such member shall die after attaining service retirement age and has
16 not withdrawn his accumulated deductions, an amount equal to 3/16
17 of the compensation received by the member in the last year of
18 creditable service shall be paid to such person, if living, as he shall
19 have nominated by written designation duly executed and filed with the
20 retirement system; otherwise to the executor or administrator of the
21 member's estate.

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

23

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

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

45 b. Should a member resign after having established 25 years of
46 creditable service before reaching age 60, he may elect "early

1 retirement," provided, that such election is communicated by such
2 member to the retirement system by filing a written application, duly
3 attested, stating at what time subsequent to the execution and filing
4 thereof he desires to be retired. He shall receive, in lieu of the
5 payment provided in subsection a. of this section, an annuity which is
6 the actuarial equivalent of his accumulated deductions together with
7 regular interest, and a pension in the amount which, when added to the
8 member's annuity, will provide a total retirement allowance of
9 [one-seventieth] $\frac{1}{64}$ of his final compensation for each year of
10 service credited as Class A service and [one-sixtieth] $\frac{1}{55}$ of his final
11 compensation for each year of service credited as Class B service,
12 calculated in accordance with section 48 (C. 43:15A-48) of this act,
13 reduced by $\frac{1}{4}$ of 1% for each month that the member lacks of being
14 age 55; provided, however, that upon the receipt of proper proofs of
15 the death of such a member there shall be paid to his beneficiary an
16 amount equal to three-sixteenths of the compensation upon which
17 contributions by the member to the annuity savings fund were based
18 in the last year of creditable service.

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

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

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

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

30 (cf: P.L.1987, c.1, s.1)

31

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

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

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

38 b. A pension in the amount which, when added to the member's
39 annuity, will provide a total retirement allowance of [1/70] $\frac{1}{64}$ of his
40 final compensation for each year of service credited as Class A service
41 and [1/60] $\frac{1}{55}$ of his final compensation for each year of service
42 credited as Class B service.

43 c. Upon the receipt of proper proofs of the death of a member who
44 has retired on a service retirement allowance, there shall be paid to the
45 member's beneficiary, an amount equal to $\frac{3}{16}$ of the compensation

1 upon which contributions by the member to the annuity savings fund
2 were based in the last year of creditable service.

3 (cf: P.L.1971, c.213, s.22)

4

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

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

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

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

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

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

44 (cf: P.L.1995, c.332, s.2)

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

12
13 16. (New section) The retirement allowance of each retiree under
14 section 38, subsection b. of section 41, section 48, and subsection d.
15 of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b.,
16 C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary
17 pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the
18 effective date of this act, P.L. , c. (now pending before the
19 Legislature as this bill), shall be increased by a percentage equivalent
20 to the percentage increase in the fraction of final compensation for
21 each year of credited service for the total retirement allowance under
22 these sections made by this act, P.L. , c. . The provisions of
23 section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the
24 increases in retirement allowances provided by this section.

25
26 17. This act shall take effect on the first day of the fourth month
27 after the date of enactment.

28 29 30 STATEMENT

31
32 This bill increases the retirement benefits under the Teachers'
33 Pension and Annuity Fund (TPAF) and the Public Employees'
34 Retirement System (PERS) for service, deferred and early retirement
35 by changing the formula from 1/70 to 1/64 of final compensation for
36 each year of Class A service and from 1/60 to 1/55 of final
37 compensation for each year of Class B service. Class B service has
38 been the type of membership for TPAF and PERS members since the
39 mid-1950s. The bill also increases the retirement benefit for TPAF and
40 PERS veteran members with 35 or more years of service and reduces
41 the age qualification from 60 to 55. The bill further provides that
42 existing retirees and beneficiaries would also receive a comparable
43 percentage increase in their retirement allowances.

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

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

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

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

27 According to the July 1, 1999 TPAF and PERS valuation reports,
28 the market value of TPAF assets exceeded the actuarial value of those
29 assets by over \$5 billion and the market value of PERS assets
30 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	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost			
<i>Retirement Benefits</i>	no direct cost	no direct cost	no direct cost
<i>Administrative Costs</i>	\$500,000	-0-	-0-
Local Cost			
<i>Retirement Benefits</i>	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.

- ! 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.

A3506

6

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.

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

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

5

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

8

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

10 18A:66-16. There shall be in the retirement system the contingent
11 reserve fund, annuity savings fund, retirement reserve fund, pension
12 fund, special reserve fund, interest fund, benefit enhancement fund and
13 the members' death benefit fund.

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

15

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

17 18A:66-18. The contingent reserve fund shall be the fund in which
18 shall be credited contributions made by the State and other employers.

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

27 b. Upon the basis of the tables recommended by the actuary which
28 the board of trustees adopts and regular interest, the actuary of the
29 board shall annually determine if there is an amount of the accrued
30 liability of the retirement system, computed under the projected unit
31 credit method, including the liability for pension adjustment benefits
32 for active employees funded pursuant to section 2 of P.L.1987, c.385
33 (C.18A:66-18.1), which is not already covered by the assets of the
34 retirement system, valued in accordance with the asset valuation
35 method established in this section. This shall be known as the
36 "unfunded accrued liability." If there was no unfunded accrued
37 liability for the valuation period immediately preceding the current
38 valuation period, the actuary, using the total amount of this unfunded
39 accrued liability, shall compute the initial amount of contribution
40 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 thus is new matter.

1 annually for a specific period of time, will amortize this liability. The
2 State Treasurer shall determine, upon the advice of the Director of the
3 Division of Pensions and Benefits, the board of trustees and the
4 actuary, the rate of increase for the contribution and the time period
5 for full funding of this liability, which shall not exceed 30 years. This
6 shall be known as the "accrued liability contribution." Thereafter, any
7 increase or decrease in the unfunded accrued liability as a result of
8 actuarial losses or gains for subsequent valuation years shall serve to
9 increase or decrease, respectively, the amortization period for the
10 unfunded accrued liability, unless an increase in the amortization
11 period will cause it to exceed 30 years. If an increase in the
12 amortization period as a result of actuarial losses for a valuation year
13 would exceed 30 years, the accrued liability contribution shall be
14 computed for the valuation year in the same manner provided for the
15 computation of the initial accrued liability contribution under this
16 section. The State may pay all or any portion of its unfunded accrued
17 liability under the retirement system from any source of funds legally
18 available for the purpose, including, without limitation, the proceeds
19 of bonds authorized by law for this purpose.

20 The value of the assets to be used in the computation of the
21 contributions provided for under this section for valuation periods
22 shall be the value of the assets for the preceding valuation period
23 increased by the regular interest rate, plus the net cash flow for the
24 valuation period (the difference between the benefits and expenses
25 paid by the system and the contributions to the system) increased by
26 one half of the regular interest rate, plus 20% of the difference
27 between this expected value and the full market value of the assets as
28 of the end of the valuation period. This shall be known as the
29 "valuation assets." Notwithstanding the first sentence of this
30 paragraph, the valuation assets for the valuation period ending
31 March 31, 1996 shall be the full market value of the assets as of that
32 date and shall include the proceeds from the bonds issued pursuant to
33 the Pension Bond Financing Act of 1997, P.L.1997, c.114
34 (C.34:1B-7.45 et seq.), paid to the system by the New Jersey
35 Economic Development Authority to fund the unfunded accrued
36 liability of the system. Notwithstanding the first sentence of this
37 paragraph, the valuation assets for the valuation period ending June
38 30, 1999 shall be the full market value of the assets as of that date.

39 "Excess valuation assets" for a valuation period means:

- 40 (1) the valuation assets; less
- 41 (2) the actuarial accrued liability for basic benefits and pension
42 adjustment benefits, excluding the unfunded accrued liability for early
43 retirement incentive benefits pursuant to P.L.1991, c.231 and
44 P.L.1993, c.163 for employers other than the State; less
- 45 (3) the contributory group insurance premium fund created by
46 N.J.S.18A:66-77; less

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

4 (5) the present value of the projected total normal cost for pension
5 adjustment benefits in excess of the projected total phased-in normal
6 cost for pension adjustment benefits as originally authorized by section
7 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period,
8 determined in the manner prescribed for the determination and
9 amortization of the unfunded accrued liability of the system, if the sum
10 of the foregoing items is greater than zero.

11 If there are excess valuation assets for the valuation period ending
12 March 31, 1996, the normal contributions for the valuation periods
13 ending March 31, 1996 and March 31, 1997 which have not yet been
14 paid to the retirement system shall be reduced to the extent possible
15 by the excess valuation assets, provided that the General Fund
16 balances that would have been paid to the retirement system except for
17 this provision shall first be allocated as State aid to public schools to
18 the extent that additional sums are required to comply with the May
19 14, 1997 decision of the New Jersey Supreme Court in Abbott v.
20 Burke, and provided further that the normal contribution for the
21 valuation period ending March 31, 1996 shall not be less than
22 \$54,000,000. If there are excess valuation assets for a valuation
23 period ending after March 31, 1996, the State Treasurer may reduce
24 the normal contribution payable for the next valuation period as
25 follows:

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

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

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

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

35 For calendar years 1998 and 1999, the rate of contribution of
36 members of the retirement system under N.J.S.18A:66-29 shall be
37 reduced by 1/2 of 1% from excess valuation assets. For calendar years
38 2000 and 2001, the rate of contribution of members of the retirement
39 system shall be reduced equally with normal contributions to the extent
40 possible, but not more than 1/2 of 1%, from excess valuation assets.

41 Thereafter, the rate of contribution of members of the retirement
42 system under that section for a calendar year shall be reduced equally
43 with normal contributions to the extent possible, but not by more than
44 [1/2 of 1%] 2%, from excess valuation assets if the State Treasurer
45 determines that excess valuation assets shall be used to reduce normal
46 contributions by the State for the fiscal year beginning immediately

1 prior to the calendar year, and excess valuation assets above the
2 amount necessary to fund the reduction for that calendar year in the
3 member contribution rate plus an equal reduction in the normal
4 contribution shall be available for the further reduction of normal
5 contributions, subject to the limitations prescribed by this subsection.

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

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

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

30 d. The retirement system shall certify annually the aggregate
31 amount payable to the contingent reserve fund in the ensuing year,
32 which amount shall be equal to the sum of the amounts described in
33 this section, and which shall be paid into the contingent reserve fund
34 in the manner provided by section 18A:66-33.

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

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

42 (cf: P.L.1997, c.115, s.1)

43

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

45 18A:66-25. The board of trustees at the end of each fiscal year
46 shall allow interest on the balance of the contingent reserve fund, the

1 annuity savings fund, the retirement reserve fund, pension fund, benefit
2 enhancement fund and the members' death benefit fund as of the
3 beginning of said fiscal year at the regular interest rate applicable
4 thereto to cover the interest creditable to the respective funds for the
5 year. The amount so allowed shall be due and payable to said funds
6 and shall be credited annually thereto by the board.
7 (cf: N.J.S.18A:66-25)

8

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

10 18A:66-36. Should a member of the Teachers' Pension and Annuity
11 Fund, after having completed 10 years of service, be separated
12 voluntarily or involuntarily from the service, before reaching service
13 retirement age, and not by removal for conduct unbecoming a teacher
14 or other just cause under the provisions of sections 18A:28-4 to
15 18A:28-5 and 18A:28-9 to 18A:28-13 inclusive, such person may elect
16 to receive, in lieu of the payment provided in section 18A:66-34:

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

19 b. A deferred retirement allowance beginning at age 60, which shall
20 be made up of an annuity derived from the member's accumulated
21 deductions at the time of his severance from the service, and a pension
22 in the amount which, when added to the member's annuity, will
23 provide a total retirement allowance of ~~[1/70]~~ 1/64 of his final
24 compensation for each year of service credited as Class A service and
25 ~~[1/60]~~ 1/55 of his final compensation for each year of service
26 credited as class B service, calculated in accordance with section
27 18A:66-44, with optional privileges provided for in section 18A:66-47
28 if he exercises such optional privilege at least 30 days before his
29 attainment of the normal retirement age; provided, that such election
30 is communicated by such member to the retirement system in writing
31 stating at what time subsequent to the execution and filing thereof he
32 desires to be retired; and provided, further, that such member may
33 later elect: (1) to receive the payments provided for in section
34 18A:66-37, if he had qualified under that section at the time of leaving
35 service, except that in order to avail himself of the optional privileges
36 pursuant to section 18A:66-47, he must exercise such optional
37 privilege at least 30 days before the effective date of his retirement; or
38 (2) to withdraw his accumulated deductions with interest as provided
39 in section 18A:66-34. If such member shall die before attaining
40 service retirement age, then his accumulated deductions, plus regular
41 interest after January 1, 1956, shall be paid in accordance with section
42 18A:66-38, and, in addition if such member shall die after attaining
43 service retirement age and has not withdrawn his accumulated
44 deductions, an amount equal to 3/16 of the compensation upon which
45 contributions by the member to the annuity savings fund were based
46 in the last year of creditable service shall be paid to such member's

1 beneficiary.

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

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

13

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

15 18A:66-37. Should a member resign after having established
16 25 years of creditable service before reaching age 60, he may elect
17 "early retirement," provided, that such election is communicated by
18 such member to the retirement system by filing a written application,
19 duly attested, stating at what time subsequent to the execution and
20 filing thereof he desires to be retired. He shall receive, in lieu of the
21 payment provided in N.J.S.18A:66-34, an annuity which is the
22 actuarial equivalent of his accumulated deductions and a pension in the
23 amount which, when added to the member's annuity, will provide a
24 total retirement allowance of $[\frac{1}{70}] \frac{1}{64}$ of his final compensation for
25 each year of service credited as class A service and $[\frac{1}{60}] \frac{1}{55}$ of his
26 final compensation for each year of service credited as class B service,
27 calculated in accordance with N.J.S.18A:66-44, reduced by 1/4 of 1%
28 for each month that the member lacks of being age 55; provided,
29 however, that upon the receipt of proper proofs of the death of such
30 a member there shall be paid to his beneficiary an amount equal to
31 $\frac{3}{16}$ of the compensation upon which contributions by the member to
32 the annuity savings fund were based in the last year of creditable
33 service or in the year of the member's highest contractual salary,
34 whichever is higher.

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

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

39

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

41 18A:66-44. A member, upon retirement for service, shall receive a
42 retirement allowance consisting of:

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

46 (b) a pension in the amount which, when added to the member's

1 annuity, will provide a total retirement allowance of ~~1/70~~ 1/64 of his
2 final compensation for each year of service credited as class A service
3 and ~~1/60~~ 1/55 of his final compensation for each year of service
4 credited as class B service.

5 Upon the receipt of proper proofs of the death of a member who
6 has retired on a service retirement allowance, there shall be paid to the
7 member's beneficiary, an amount equal to 3/16 of the compensation
8 upon which contributions by the member to the annuity savings fund
9 were based in the last year of creditable service or in the year of the
10 member's highest contractual salary, whichever is higher.

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

12

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

14 18A:66-71. a. Any public employee veteran member in office,
15 position or employment of this State or of a county, municipality, or
16 school district, board of education or other employer who (1) has or
17 shall have attained the age of 60 years and has or shall have been for
18 20 years continuously or in the aggregate in office, position or
19 employment of this State or of a county, municipality or school
20 district, board of education or other employer, or (2) has or shall have
21 attained the age of 55 years and has or shall have been for 25 years
22 continuously or in the aggregate in that office, position or
23 employment, shall have the privilege of retiring for service and of
24 receiving, instead of the retirement allowance provided under
25 N.J.S.18A:66-44, a retirement allowance of one-half of the
26 compensation for which contributions are made during the 12-month
27 period of membership providing the largest possible benefit to the
28 member or the member's beneficiary.

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

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

41 d. Any public employee veteran member who shall be in office,
42 position or employment of this State or of a county, municipality,
43 school district, board of education or other employer and who shall
44 have attained ~~60~~ 55 years of age and who has at least 35 years of
45 aggregate service credit in such office, position or employment, shall
46 have the privilege of retiring for service and receiving a retirement

1 allowance of [one-sixtieth] 1/55 of the compensation he received
2 during the last year of employment upon which contributions to the
3 annuity savings fund or contingent reserve fund are made for each year
4 of creditable service.

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

12 f. A member who purchases service credit pursuant to any
13 provision of the "Teachers' Pension and Annuity Fund Law"
14 (N.J.S.18A:66-1 et seq.) is entitled to apply the credit for the purpose
15 of satisfying any of the service requirements of that act.
16 (cf: P.L.1995, c.332, s.1)

17
18 8. Section 22 of P.L. 1954, c.84 (C.43:15A-22) is amended to read
19 as follows:

20 22. Under this act there shall be the contingent reserve fund,
21 annuity savings fund, retirement reserve fund, benefit enhancement
22 fund and the special reserve fund.
23 (cf: P.L.1963, c.51, s.1)

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

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

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

37 b. With respect to employers other than the State, upon the basis
38 of the tables recommended by the actuary which the board adopts and
39 regular interest, the actuary shall compute the amount of the accrued
40 liability of the retirement system as of March 31, 1992 under the
41 projected unit credit method, excluding the liability for pension
42 adjustment benefits for active employees funded pursuant to section
43 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by
44 the assets of the retirement system, valued in accordance with the asset
45 valuation method established in this section. Using the total amount of
46 this unfunded accrued liability, the actuary shall compute the initial

1 amount of contribution which, if the contribution is increased at a
2 specific rate and paid annually for a specific period of time, will
3 amortize this liability. The State Treasurer shall determine, upon the
4 advice of the Director of the Division of Pensions and Benefits, the
5 board of trustees and the actuary, the rate of increase for the
6 contribution and the time period for full funding of this liability, which
7 shall not exceed 40 years on initial application of this section as
8 amended by this act, P.L.1994, c.62. This shall be known as the
9 "accrued liability contribution." Any increase or decrease in the
10 unfunded accrued liability as a result of actuarial losses or gains for the
11 10 valuation years following valuation year 1992 shall serve to
12 increase or decrease, respectively, the unfunded accrued liability
13 contribution. Thereafter, any increase or decrease in the unfunded
14 accrued liability as a result of actuarial losses or gains for subsequent
15 valuation years shall serve to increase or decrease, respectively, the
16 amortization period for the unfunded accrued liability, unless an
17 increase in the amortization period will cause it to exceed 30 years.
18 If an increase in the amortization period as a result of actuarial losses
19 for a valuation year would exceed 30 years, the accrued liability
20 contribution shall be computed for the valuation year in the same
21 manner provided for the computation of the initial accrued liability
22 contribution under this section.

23 With respect to the State, upon the basis of the tables recommended
24 by the actuary which the commission adopts and regular interest, the
25 actuary shall annually determine if there is an amount of the accrued
26 liability of the retirement system, computed under the projected unit
27 credit method, which is not already covered by the assets of the
28 retirement system, valued in accordance with the asset valuation
29 method established in this section. This shall be known as the
30 "unfunded accrued liability." If there was no unfunded accrued
31 liability for the valuation period immediately preceding the current
32 valuation period, the actuary, using the total amount of this unfunded
33 accrued liability, shall compute the initial amount of contribution
34 which, if the contribution is increased at a specific rate and paid
35 annually for a specific period of time, will amortize this liability. The
36 State Treasurer shall determine, upon the advice of the Director of the
37 Division of Pensions and Benefits, the commission and the actuary, the
38 rate of increase for the contribution and the time period for full
39 funding of this liability, which shall not exceed 30 years. This shall be
40 known as the "accrued liability contribution." Thereafter, any increase
41 or decrease in the unfunded accrued liability as a result of actuarial
42 losses or gains for subsequent valuation years shall serve to increase
43 or decrease, respectively, the amortization period for the unfunded
44 accrued liability, unless an increase in the amortization period will
45 cause it to exceed 30 years. If an increase in the amortization period
46 as a result of actuarial losses for a valuation year would exceed 30

1 years, the accrued liability contribution shall be computed for the
2 valuation year in the same manner provided for the computation of the
3 initial accrued liability contribution under this section. The State may
4 pay all or any portion of its unfunded accrued liability under the
5 retirement system from any source of funds legally available for the
6 purpose. including, without limitation, the proceeds of bonds
7 authorized by law for this purpose.

8 The value of the assets to be used in the computation of the
9 contributions provided for under this section for valuation periods
10 shall be the value of the assets for the preceding valuation period
11 increased by the regular interest rate, plus the net cash flow for the
12 valuation period (the difference between the benefits and expenses
13 paid by the system and the contributions to the system) increased by
14 one half of the regular interest rate, plus 20% of the difference
15 between this expected value and the full market value of the assets as
16 of the end of the valuation period. This shall be known as the
17 "valuation assets." Notwithstanding the first sentence of this
18 paragraph, the valuation assets for the valuation period ending March
19 31, 1996 shall be the full market value of the assets as of that date and,
20 with respect to the valuation assets allocated to the State, shall include
21 the proceeds from the bonds issued pursuant to the "Pension Bond
22 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
23 to the system by the New Jersey Economic Development Authority to
24 fund the unfunded accrued liability of the system. [Notwithstanding
25 the first sentence of this paragraph, the amount of the difference
26 between the expected value and the full market value of the assets to
27 be added to the expected value of the assets for the valuation period
28 ending June 30, 1999 shall include an additional amount of the market
29 value of the assets sufficient to fund the unfunded accrued liability for
30 the supplementary "special" retirement allowances provided under
31 section 4 of P.L.2001, c.4 (C.43:15A-100.1).] Notwithstanding the
32 first sentence of this paragraph, the valuation assets for the valuation
33 period ending June 30, 1999 shall be the full market value of the assets
34 as of that date.

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

- 37 (1) the valuation assets allocated to the State; less
- 38 (2) the actuarial accrued liability of the State for basic benefits and
39 pension adjustment benefits under the retirement system; less
- 40 (3) the contributory group insurance premium fund, created by
41 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
42 of P.L.1960, c.79; less
- 43 (4) the post retirement medical premium fund, created pursuant to
44 section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8
45 of P.L.1994, c.62; less
- 46 (5) the present value of the projected total normal cost for pension

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 the benefit enhancement fund are insufficient to pay the normal
2 contribution for the increased benefits for a valuation period, the State
3 shall pay the amount of normal contribution for the increased benefits
4 not covered by assets from the benefit enhancement fund.

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

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

16 (cf: P.L.2001, c.4, s.5)

17

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

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

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

29

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

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

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

39 (b) A deferred retirement allowance, beginning at the retirement
40 age, which shall be made up of an annuity derived from the
41 accumulated deductions standing to the credit of the individual
42 member's account in the annuity savings fund at the time of his
43 severance from the service together with regular interest, and a
44 pension which when added to the annuity will produce a total
45 retirement allowance of ~~[1/70]~~ 1/64 of his final compensation for
46 each year of service credited as Class A service and ~~[1/60]~~ 1/55 of

1 his final compensation for each year of service credited as Class B
2 service, calculated in accordance with section 48 of this act, with
3 optional privileges provided for in section 50 of this act if he exercises
4 such optional privilege at least 30 days before his attainment of the
5 normal retirement age; provided, that such election is communicated
6 by such member to the retirement system in writing stating at what
7 time subsequent to the execution and filing thereof he desires to be
8 retired; and provided further, that such member, as referred to in this
9 subsection may later elect: (1) to receive the payments provided for
10 in section 41b. of this act, if he had qualified under that section at the
11 time of leaving service, except that in order to avail himself of the
12 optional privileges pursuant to section 50, he must exercise such
13 optional privilege at least 30 days before the effective date of his
14 retirement; or (2) to withdraw his accumulated deductions with
15 interest as provided in section 41a. If such member shall die before
16 attaining service retirement age then his accumulated deductions, plus
17 regular interest, shall be paid in accordance with section 41c.; or if
18 such member shall die after attaining service retirement age and has
19 not withdrawn his accumulated deductions, an amount equal to 3/16
20 of the compensation received by the member in the last year of
21 creditable service shall be paid to such person, if living, as he shall
22 have nominated by written designation duly executed and filed with the
23 retirement system; otherwise to the executor or administrator of the
24 member's estate.

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

26

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

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

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

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

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

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

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

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

33 (cf: P.L.1987, c.1, s.1)

34

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

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

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

41 b. A pension in the amount which, when added to the member's
42 annuity, will provide a total retirement allowance of ~~1/70~~ $\frac{1}{64}$ of his
43 final compensation for each year of service credited as Class A service
44 and ~~1/60~~ $\frac{1}{55}$ of his final compensation for each year of service
45 credited as Class B service.

46 c. Upon the receipt of proper proofs of the death of a member who

1 has retired on a service retirement allowance, there shall be paid to the
2 member's beneficiary, an amount equal to 3/16 of the compensation
3 upon which contributions by the member to the annuity savings fund
4 were based in the last year of creditable service.

5 (cf: P.L.1971, c.213, s.22)

6

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

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

10 b. Any public employee veteran member in office, position or
11 employment of this State or of a county, municipality, public agency,
12 school district or board of education and who shall have attained
13 62 years of age and who has 20 years of aggregate service credit in
14 such office, position or employment, shall have the privilege of retiring
15 for service and receiving, instead of the retirement allowance provided
16 under section 48 of this act, a retirement allowance of one-half of the
17 compensation for which contributions are made during the 12-month
18 period of membership providing the largest possible benefit to the
19 member or the member's beneficiary.

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

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

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

46 (cf: P.L.1995, c.332, s.2)

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

12
13 16. (New section) The retirement allowance of each retiree under
14 section 38, subsection b. of section 41, section 48, and subsection d.
15 of section 61 of P.L.1954, c.84 (C.43:15A-38, C.43:15A-41b.,
16 C.43:15A-48, and C.43:15A-61d.), or the retiree's beneficiary
17 pursuant to section 50 of P.L.1954, c.84 (C.43:15A-50), on the
18 effective date of this act, P.L. , c. (now pending before the
19 Legislature as this bill), shall be increased by a percentage equivalent
20 to the percentage increase in the fraction of final compensation for
21 each year of credited service for the total retirement allowance under
22 these sections made by this act, P.L. , c. . The provisions of
23 section 7 of P.L.1969, c.169 (C.43:3B-8) shall not be applicable to the
24 increases in retirement allowances provided by this section.

25
26 17. This act shall take effect on the first day of the fourth month
27 after the date of enactment.

28 29 30 STATEMENT

31
32 This bill increases the retirement benefits under the Teachers'
33 Pension and Annuity Fund (TPAF) and the Public Employees'
34 Retirement System (PERS) for service, deferred and early retirement
35 by changing the formula from 1/70 to 1/64 of final compensation for
36 each year of Class A service and from 1/60 to 1/55 of final
37 compensation for each year of Class B service. Class B service has
38 been the type of membership for TPAF and PERS members since the
39 mid-1950s. The bill also increases the retirement benefit for TPAF and
40 PERS veteran members with 35 or more years of service and reduces
41 the age qualification from 60 to 55. The bill further provides that
42 existing retirees and beneficiaries would also receive a comparable
43 percentage increase in their retirement allowances.

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

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

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

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

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

31

32

33

34

35 _____
36 Increases TPAF and PERS retirement benefits for active members and
37 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 $\frac{3}{16}$ 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 $\frac{1}{64}$ of his final compensation for each year of service credited as class A service and $\frac{1}{55}$ 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 $\frac{1}{4}$ 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 $\frac{3}{16}$ 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 $\frac{1}{64}$ of his final compensation for each year of service credited as class A service and $\frac{1}{55}$ 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 $\frac{3}{16}$ 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.

PO BOX 004
TRENTON, NJ 08625

Office of the Governor
NEWS RELEASE

CONTACT: Rae Hutton
609-777-2600

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.