

LEGISLATIVE HISTORY CHECKLIST

NJSA: 18A:66-174

(Higher Education--
Employees--Pensions--Minimum
Contribution of State)

LAWS OF: 1985

CHAPTER: 71

Bill No: S571

Sponsor(s): Lipman, Graves and McManimon

Date Introduced: Pre-filed

Committee: Assembly: -----

Senate: State Government, Federal and Interstate Relations and
Veterans Affairs.

Amended during passage: Yes
according to Governor's recommendations

Substituted for A2219(not attached
since identical to S571). Amendments
denoted by asterisks.

Date of Passage: Assembly: June 25, 1984 Re-enacted 2-28-85

Senate: June 25, 1985 Re-enacted 1-31-85

Date of Approval: March 11, 1985

Following statements are attached if available:

Sponsor statement: Yes

Committee statement: Assembly No

Senate Yes

Fiscal Note: No

Veto Message: No

Message on Signing: No

Following were printed:

Reports: No

Hearings: No

CHAPTER 71
APPROVED 3-11-85

[OFFICIAL COPY REPRINT]

SENATE, No. 571

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1984 SESSION

By Senators LIPMAN, GRAVES and McMANIMON

AN ACT concerning employer contributions to the alternate benefit program and amending P. L. 1969, c. 242.

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

1 1. Section 8 of P. L. 1969, c. 242 (C. 18A:66-174) is amended to
2 read as follows:

3 (a) The **[College]** *University of Medicine and Dentistry of New*
4 *Jersey*, Rutgers, The State University and the Newark College of
5 Engineering shall deduct from or with the consent of the partici-
6 pant, reduce the compensation of each participant in the alternate
7 benefit program and pay over to the insurer or insurers for the
8 benefit of the participant an employee contribution for the retire-
9 ment annuity contract or contracts equal to 5% of the participant's
10 base salary. The intervals for deductions or reductions and pay-
11 ments shall be determined by the respective school governing bodies.

12 The Division of Pensions shall deduct from or with the consent
13 of the participant, provide for reductions from the compensation
14 of each participant in the alternate benefit program employed by
15 the Department of Higher Education, the State and county colleges
16 of an employee contribution equal to 5% of the participant's base
17 salary and pay this amount to the insurer or insurers for the indi-
18 vidual's retirement annuity contract or contracts. The intervals
19 for deductions or reductions and payments shall be determined by
20 the Division of Pensions.

21 (b) Based on a certification to the Division of Pensions by the
22 **[College]** *University of Medicine and Dentistry of New Jersey,*

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 printed in italics *thus* is new matter.

Matter enclosed in asterisks or stars has been adopted as follows:

*—Senate amendments adopted in accordance with Governor's recommendations January 24, 1985.

23 Rutgers, The State University and the Newark College of Engi-
 24 neering of the number and base salary of participants, the division
 25 shall authorize the State to make payment of the employer contri-
 26 butions to the alternate benefit programs at a rate equal to *~~the~~
 27 normal contribution made by the State on behalf of nonveteran
 28 members of the Public Employees' Retirement System *or* *~~8% of~~
 29 *the employee's base salary, *~~whichever is greater,~~** which moneys
 30 shall be paid to the designated insurer or insurers for the benefit
 30A of each participant.

31 Based on a certification by the Division of Pensions of the
 32 number and base salary of participants employed by the Depart-
 33 ment of Higher Education, the State and county colleges, the State
 34 shall make payment of the employer contributions to the alternate
 35 benefit program at a rate equal to *~~the normal contribution made~~
 36 by the State on behalf of nonveteran members of the Public Em-
 37 ployees' Retirement System *or* *~~8% of the employee's base salary,~~
 38 *~~whichever is greater,~~* which moneys shall be paid to the
 39 designated insurer or insurers for the benefit of each participant.

40 (c) For the member of the Public Employees' Retirement
 41 System employed by the county colleges who is defined in the regu-
 42 lations of the Board of Higher Education as a full-time faculty
 43 member and who is permitted to transfer his membership *~~or con-~~
 44 *tinue membership in that State program, as the case may be**
 45 **and does so, the State shall pay the employer contribution to the*
 46 *alternate benefit program at a rate equal to 8% of the member's*
 47 *base salary. If the member continues membership in the Public*
 48 *Employees' Retirement System**, the State shall pay the employer
 49 contribution to the retirement system on his behalf and such em-
 50 ployer contribution shall be at a rate equal to the normal contribu-
 51 tion made by the State on behalf of nonveteran members of the
 52 Public Employees' Retirement System.

1 2. This act shall take effect July 1 next following enactment.

SENATE, No. 571

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1984 SESSION

By Senators LIPMAN, GRAVES and McMANIMON

AN ACT concerning employer contributions to the alternate benefit program and amending P. L. 1969, c. 242.

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

1 1. Section 8 of P. L. 1969, c. 242 (C. 18A:66-174) is amended to
2 read as follows:

3 (a) The **College** *University* of Medicine and Dentistry of New
4 Jersey, Rutgers, The State University and the Newark College of
5 Engineering shall deduct from or with the consent of the partici-
6 pant, reduce the compensation of each participant in the alternate
7 benefit program and pay over to the insurer or insurers for the
8 benefit of the participant an employee contribution for the retire-
9 ment annuity contract or contracts equal to 5% of the participant's
10 base salary. The intervals for deductions or reductions and pay-
11 ments shall be determined by the respective school governing bodies.

12 The Division of Pensions shall deduct from or with the consent
13 of the participant, provide for reductions from the compensation
14 of each participant in the alternate benefit program employed by
15 the Department of Higher Education, the State and county colleges
16 of an employee contribution equal to 5% of the participant's base
17 salary and pay this amount to the insurer or insurers for the indi-
18 vidual's retirement annuity contract or contracts. The intervals
19 for deductions or reductions and payments shall be determined by
20 the Division of Pensions.

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 printed in italics *thus* is new matter.

21 (b) Based on a certification to the Division of Pensions by the
 22 **College** *University of Medicine and Dentistry of New Jersey,*
 23 Rutgers, The State University and the Newark College of Engi-
 24 neering of the number and base salary of participants, the division
 25 shall authorize the State to make payment of the employer contri-
 26 butions to the alternate benefit programs at a rate equal to the
 27 normal contribution made by the State on behalf of nonveteran
 28 members of the Public Employees' Retirement System *or 8% of*
 29 *the employee's base salary, whichever is greater,* which moneys
 30 shall be paid to the designated insurer or insurers for the benefit
 30A of each participant.

31 Based on a certification by the Division of Pensions of the
 32 number and base salary of participants employed by the Depart-
 33 ment of Higher Education, the State and county colleges, the State
 34 shall make payment of the employer contributions to the alternate
 35 benefit program at a rate equal to the normal contribution made by
 36 the State on behalf of nonveteran members of the Public Em-
 37 ployees' Retirement System *or 8% of the employee's base salary,*
 38 *whichever is greater,* which moneys shall be paid to the designated
 39 insurer or insurers for the benefit of each participant.

40 (c) For the member of the Public Employees' Retirement
 41 System employed by the county colleges who is defined in the regu-
 42 lations of the Board of Higher Education as a full-time faculty
 43 member and who is permitted to transfer his membership or con-
 44 tinue membership in that State program, as the case may be, the
 45 State shall pay the employer contribution to the retirement system
 46 on his behalf and such employer contribution shall be at a rate
 47 equal to the normal contribution made by the State on behalf of
 48 nonveteran members of the Public Employees' Retirement System.

1 2. This act shall take effect on July 1 next following enactment.

STATEMENT

The purpose of this bill is to provide that the State shall make a minimum annual contribution on behalf of each employee enrolled in the alternate benefit program in an amount equal to 8% of the employee's base salary.

The alternate benefit program is a retirement program established for faculty and administrative employees of the State's institutions of higher education. This program was established in 1967 in lieu of participation in the Public Employees' Retirement System (PERS) or other State-administered systems with the understanding that the benefits provided for in the alternate benefit program would be comparable to those of PERS.

5571 (1985)

By law the State's contribution for each participant in the alternate benefit program is equal to its normal contribution rate for nonveteran members of PERS. Following a revaluation of the liabilities of PERS in 1970, the State's normal contribution rate fell significantly below the better than 8% of base salary level which it had been making to PERS and the alternate benefit program. While this lower rate has proved financially advantageous to the State in funding PERS with no corresponding diminution in the benefits for PERS members, it has reduced the anticipated value of retirement benefits of participants in the alternate benefit program.

Unlike PERS which is a defined benefit program providing a fixed benefit expressed as a percentage of average final compensation, the alternate benefit program is a "money purchase" program in which the value of the retirement benefit is based upon what is saved, i.e. employer-employee contributions plus interest. Thus, when the State's contribution rate to the alternate benefit is reduced it adversely affects the value of the retirement benefit.

By restoring the State contribution to the alternate benefit program to the 8% of base salary level, participants in this program will be assured of the anticipated retirement benefit which they contemplated at the inception of the program.

SENATE STATE GOVERNMENT, FEDERAL AND
INTERSTATE RELATIONS AND VETERANS AFFAIRS
COMMITTEE

STATEMENT TO
SENATE, No. 571

STATE OF NEW JERSEY

DATED: FEBRUARY 23, 1984

This bill provides that the State shall make a contribution on behalf of each employee enrolled in the alternate benefit program in an amount equal to 8% of the employee's base salary or equal to the normal contribution made by the State on behalf of nonveteran members of the Public Employees' Retirement System, whichever is greater.

The alternate benefit program is a retirement program established for faculty and administrative employees of the State's institutions of higher education. According to the sponsor, "this program was established in 1967 in lieu of participation in the Public Employees' Retirement System (PERS) or other State-administered systems with the understanding that the benefits provided for in the alternate benefit program would be comparable to those of PERS."

STATE OF NEW JERSEY
EXECUTIVE DEPARTMENT

September 13, 1984

SENATE BILL NO. 571

To the Senate:

Pursuant to Article V, Section I, Paragraph 14 of the Constitution, I herewith return Senate Bill No. 571 with my objections and recommendations for amendment.

Senate Bill No. 571 amends the law pertaining to the Alternate Benefit Program (ABP) to provide that the employer contribution for each member of the ABP shall be at a rate equal to the normal contribution made by the employer on behalf of nonveteran members of the Public Employees' Retirement System (PERS) or eight percent (8%) of the ABP member's base salary, whichever is greater. Current law provides that the employer contribution obligation for each member of the ABP shall be equal to the employer contribution obligation for nonveteran members of the PERS. The effect of Senate Bill No. 571 is to require the employer to make a minimum contribution of 8% of base salary for each ABP member.

As a general rule, I do not support the concept of a fixed employer contribution obligation to our State administered pension systems. I believe that the current method of computing employer contribution rates for our State administered pension systems, via an annual computation by the actuary for a system, is the most equitable and prudent method. However, in the instant case, the concept of a fixed employer contribution obligation is justified.

This concept is justified for the Alternate Benefit Program because of the unique nature of this State administered pension system. Unlike the other State administered pension systems, the ABP is a strict annuity program. As such, a member's retirement allowance will consist only of the member's contribution, the employer's contribution on behalf of the member, and interest. Current law provides that the employer contribution rate for each ABP member shall equal the employer contribution rate for each PERS nonveteran member. As indicated, this contribution rate can fluctuate as it is determined annually by the actuary for the system. Since the ABP is a strict annuity program, a decline in the employer PERS nonveteran contribution rate will directly affect the size of the ABP member's retirement allowance. This is not the case for

STATE OF NEW JERSEY
EXECUTIVE DEPARTMENT

2

the members of our other State administered pension systems as their retirement allowances are computed pursuant to a statutory formula. Additionally, the fluctuation in the employer contribution rate makes it impossible for an ABP member to compute the amount of his/her retirement allowance and therefore, plan for his/her retirement.

While I support the concept of a fixed employer contribution rate for the members of the ABP, the fixed contribution rate set forth within Senate Bill No. 571 is not the correct solution to the problem.

Senate Bill No. 571 provides that the employer contribution to the ABP shall be 8% of base salary or the employer contribution rate for nonveteran members of the PERS, whichever is greater. This provision would allow ABP members to take advantage of the PERS nonveteran contribution rate when that rate is above 8% of base salary, but allows ABP members to depart from the PERS rate when that rate falls below 8% of base salary. This is an inequitable result. If ABP members wish to sever their connection with the PERS, this severance must be complete; not partial. For this reason, I recommend that Senate Bill No. 571 be amended to set the employer contribution rate for ABP members at 8% of base salary.

An employer contribution rate of 8% of base salary will provide ABP members with the security that they deserve. A contribution rate of 8% of base salary is appropriate for two reasons: First, 8% of base salary was the employer contribution rate from the inception of the ABP in 1969 through Fiscal Year 1976. Secondly, since Fiscal Year 1981, the employer contribution rate for ABP members has been approximately 8% of base salary.

Accordingly, for the aforementioned reason, I return Senate Bill No. 571 to you and recommend that it be amended as follows:

Page 2, Section 1, Lines 26-28: DELETE "the normal contribution made by the State on behalf of nonveteran members of the Public Employees' Retirement System or"

Page 2, Section 1, Line 29: DELETE "whichever is greater,"

Page 2, Section 1, Lines 35-37: DELETE "the normal contribution made by the State on behalf of nonveteran members of the Public Employees' Retirement System or"

STATE OF NEW JERSEY
EXECUTIVE DEPARTMENT

3

Page 2, Section 1, Line 38: DELETE "whichever is greater,"

Page 2, Section 1, Lines 43-44: DELETE "or continue membership in that State program, as the case may be"; INSERT "and does so, the State shall pay the employer contribution to the alternate benefit program at a rate equal to 8% of the member's base salary. If the member continues membership in the Public Employees' Retirement System"

Respectfully,

/s/ Thomas H. Kean
GOVERNOR

[seal]

Attest:

/s/ W. Cary Edwards
Chief Counsel