43:16A-11.1; 43:16A-15; 43:16A-15.5

LEGISLATIVE HISTORY CHECKLIST

(Police & Firemen's Retirement System - changes special retirement formula)

NJSA 43:16A-11.1; 43:16A-15; 43:16A-15.5

LAWS OF 1979 CHAPTER 109

Bill No. S3207

Sponsor(s) Gregorio and others

Date Introduced April 26, 1979

Committee: Assembly Municipal Government

Senate ~~County & Municipal Government;~~ State Government, Federal and Interstate Relations and Veterans Affairs

Amended during passage Yes No

Date of Passage: Assembly June 11, 1979

Senate May 21, 1979

Date of approval June 18, 1979

Following statements are attached if available:

Sponsor statement	Yes	~~No~~
Committee Statement: Assembly	Yes	~~No~~
Senate	Yes	~~No~~
Fiscal Note	~~Yes~~	No
Veto Message	~~Yes~~	No
Message on signing	Yes	~~No~~

Following were printed:

Reports	~~Yes~~	No
Hearings	Yes	~~No~~

N.J. Legislature. Senate. State Government, Federal and Interstate Relations and Veterans Affairs Committee. Public hearing on S1003, held 4-24-78. Trenton, 1978. (N.J.S.A. 43:16A-15 proposed in this bill same as approved in S3207)

(over)

2/1/78

CHAPTER 109 LAWS OF N. J. 1979
APPROVED 6-18-79

SENATE, No. 3207

STATE OF NEW JERSEY

INTRODUCED APRIL 26, 1979

By Senators GREGORIO, GRAVES, HERBERT, HIRKALA, BEDELL, A. RUSSO, ZANE, HAMILTON, MUSTO, RODGERS, MERLINO, SHEIL, J. RUSSO and SKEVIN

Referred to Committee on County and Municipal Government

An Act to amend and supplement "An act for the establishment of a police and firemen's retirement system for police, firemen and certain other law enforcement officers," approved May 23, 1944 (P. L. 1944, c. 255) as said title was amended by P. L. 1976, c. 139.

Be it enacted *by the Senate and General Assembly of the State of New Jersey:*

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

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

(2) Upon the basis of such tables recommended by the actuary as the board shall adopt and regular interest, the actuary of the retirement system shall determine for each age at entrance into the system the percentage of compensation of the member entering at such age, exclusive of the additional contribution prescribed by **[**subsection**]** *subsections* **[**(15)**]** (3) (c) *and (3) (d) of this section,* which, if deducted from each payment of his prospective earnable compensation throughout active service, is computed to be sufficient to provide for all benefits on account of his membership.

(3) (a) The percentage contribution rate of each member, exclusive of the additional contribution prescribed by **[**subsection**]** *subsections* **[**(15)**]** (3) (c) *and (3) (d) of this section,* shall be fixed according to his age at entrance into membership and shall be one-half of the total percentage contribution rate calculated for such age to be required to provide all benefits except the pensions upon accidental disability and the benefits payable upon death.

(b) Notwithstanding the provisions of subsection **[**(15)**]** (3) (a) *of this section,* the percentage contribution rates for members of

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

the retirement system exclusive of the additional contribution prescribed by [subsection] *subsections* [(15)] (3) (c) *and (3) (d) of this section,* shall be fixed at the contribution rates in effect as of July 1, 1967.

(c) Effective July 1, 1968, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.

(d) Upon the effective date of this 1979 amendatory and supplementary act, all proportions of compensation are increased by an additional 1% of compensation which is subject to deductions from the compensation of members or contributions made on their behalf by their employers in lieu of such deductions.

(4) Each employer shall make a contribution equal to that made by each member in its employ and in addition shall make a contribution equal to the percentage of the compensation of each such member certified by the retirement system to be required to provide the cost of accidental disability pensions and any death benefits on his account. Notwithstanding this provision, the retirement system shall certify an average and uniform rate for payments by all employers, which shall be set on the basis of the annual actuarial valuations to be sufficient to provide with previous contributions of employers all benefits for which employers are responsible. This shall be known as the "normal contribution."

(5) In addition each employer shall make such contributions, if any, as is certified by the retirement system to be required to provide for accrued liability arising out of all prior service granted to members chargeable to such employer.

(6) The percentage rates of contribution payable by future members and all employers shall be subject to adjustment from time to time by the board of trustees with the advice of the actuary on the basis of annual actuarial valuations and experience investigations as provided under section 13, so that the value of future contributions of members and employers, when taken with present assets, shall be equal to the value of prospective benefit payments.

(7) The retirement system shall certify to the chief fiscal officer of each employer the percentage of salary payable by each member and by the employer in behalf of his employee members. The employer shall cause to be deducted from the salary of each member the percentage of earnable compensation of each member. The retirement system shall certify to each employer the proportion of each member's compensation to be deducted, and to facilitate the

making of deductions it may modify the deduction required of any member by such an amount as shall not exceed $\frac{1}{10}$ of 1% of the compensation upon the basis of which such deduction is to be made.

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

(9) Upon the basis of such tables recommended by the actuary as the board adopts and regular interest, the actuary shall compute the amount of the unfunded liability as of June 30, 1971 which has accrued on the basis of service rendered prior to July 1, 1971 by all members, including the amount of the liability arising out of prior service as certified by the retirement system, and including the accrued liabilities established by P. L. 1964, c. 241 and P. L. 1967, c. 250. Using the total amount of this unfunded accrued liability, he shall compute the amount of the flat annual payment, which, if paid in each succeeding fiscal year commencing with July 1, 1972, for a period of 40 years, will provide for this liability. This shall be known as the "accrued liability contribution."

The normal and accrued liability contributions as certified by the retirement system shall be included in the budget of the employer and levied and collected in the same manner as any other taxes are levied and collected for the payment of the salaries of members.

(10) The treasurer or corresponding officer of the employer shall pay on or before March 31 in each year to the State Treasurer the amount so certified as payable by the employer, and shall pay monthly to the State Treasurer the amount of the deductions from the salary of the members in the employ of the employer, and the State Treasurer shall credit such amount to the appropriate fund or funds, of the retirement system.

If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by this act, interest at the rate of 6% per annum shall commence to run against the unpaid balance thereof on the first day after such thirtieth day. If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of 6% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such fifteenth day.

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

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

(13) Notwithstanding any other provision of this act, the Legislature shall annually appropriate and the State Treasurer shall pay into the contingent reserve fund of the retirement system an amount calculated as an increase in the normal contribution which will provide for the additional liability required to fund the benefits provided by this amendatory and supplementary act. Any saving realized by the retirement system as a result of any future increase in "regular interest" as determined annually by the State Treasurer shall be applied by the actuary towards meeting the cost of this additional liability.

2. Section 16 of P. L. 1964, c. 241 (C. 43:16A–11.1) is amended to read as follows:

16. Should a member resign after having established 25 years of creditable service [but not having attained the age of 55 years], he may elect "special 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 section 11, a retirement allowance which shall consist of:

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

(2) A pension in the amount which, when added to the member's annuity will provide a total retirement allowance of [2% of his average final compensation multiplied by the number of years of his creditable service up to 30 plus 1% of his average final compensation multiplied by the number of years of creditable service over 30] *60% of his average final compensation, plus 1% of his average final compensation multiplied by the number of years of creditable service over 25 but not over 30; provided, however, that any member who has earned, prior to the effective date of this 1979 amendatory act, more than 30 years of creditable service, shall receive an additional 1% of his average final compensation for each year of his creditable service over 30.*

The board of trustees shall retire him at the time specified or at such other time within 1 month after the date so specified as the board finds advisable.

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

3. (New section) In the annual report required by section 13 (9) of P. L. 1944, c. 255 (C. 43:16A-13 (9)), the State Treasurer shall report to the legislature on the cost of funding the benefits provided by this amendatory and supplementary act. He shall stipulate the annual State liability, if any, as computed by the actuary under section 15 (13) of P. L. 1944, c. 255 (C. 43:16A-15(13)), and the extent that liability will be offset by the employee contribution increase provided in section 15 (3) (d) of P. L. 1944, c. 255 (C. 43:16A-15(3)(d)) and by the application of interest earnings as provided in section 15 (13) of P. L. 1944, c. 255 (C. 43:16A-15(13)). If in any year, the State's liability to fund the benefits provided herein exceeds the value of the employee contribution increase and the application of interest earnings, the State Treasurer shall recommend an appropriate further increase in the employee contribution or such other action as he considers appropriate to offset any State liability. Also, if in any year, the State's liability is exceeded by the value of the employee contribution increase and the application of interest earnings, the State Treasurer shall recommend an appropriate decrease in the employee contribution rate.

4. This act shall take effect on July 1, 1979.

STATEMENT

This legislation alters the special retirement formula for benefits in the Police and Firemen's Retirement System from 50 to 60% after 25 years of service. A maximum of 65% of average final compensation is established for this benefit provision on the effective date of this legislation.

Employee contributions are increased by an additional 1% of salary. The remaining portion of the cost will be met by the State paying an increase in the normal contribution in order to defray the total cost of this change in benefits. This change will therefore not impose any specific additional liability upon any participating local government employer.

The State Treasurer is also authorized to apply interest earnings towards meeting the State's liability. If the State's liability exceeds the value of the additional employee contribution and the use of interest earnings, or if the State's liability is exceeded by such income, the treasurer can recommend an increase or decrease in employee contributions, as the case may be, in the annual report of the retirement system.

S3207 (1979)

ASSEMBLY MUNICIPAL GOVERNMENT COMMITTEE

STATEMENT TO

SENATE, No. 3207

STATE OF NEW JERSEY

DATED: JUNE 11, 1979

Under Senate Bill 3207, a police or fireman retiring with 25 years service would receive 60% instead of the current 50% of his average final compensation (the yearly average of his last 3 years of earnings) as his special retirement benefit. Benefits would be increased by an additional 1% for each year of service over 25, up to a maximum of 65% of the average final compensation. For example: 61% for 26 years service; 62% for 27 years service; 65% for 30 or more years service.

To pay for this increased benefit the contribution of the police and firemen (PFRS members) would be increased 1%. Additionally, the State Treasurer would be authorized to apply the higher than currently assumed earnings from PFRS funds to defer the cost of the benefit. (The currently assumed interest rate on PFRS funds is 6%. The current actual rate is 6.89%.) If there were any shortfall, the Legislature could elect to pay for it with general revenues or increase the employee contribution. The employers-individual municipalities or local units—would not have to meet any shortfall.

The bill does not alter provisions of law relating to "regular" PFRS benefits which are applicable to persons retiring with less than 25 years service; for persons with more than 35 years service, the "regular" PFRS benefit would remain higher than the elective "special" benefit.

The bill woud have the effect of encouraging retirement of police and firemen with 25 or more years service. As a result of this legislation, approximately 200 police and firemen will retire in the year after it takes effect. There are currently 26,500 PFRS members.

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

STATEMENT TO

SENATE, No. 3207

STATE OF NEW JERSEY

DATED: MAY 7, 1979

This bill amends and supplements Title 43 to increase the retirement benefits for members of the Police and Firemen's Retirement System to 60% of average final compensation after 25 years of creditable service. The bill also makes possible a means whereby the State and the members of the system, rather than the political subdivisions who are the employers, will fund the increased liability created by the change in benefits. In addition, the bill establishes a formula which limits the maximum benefit to 65% of average final compensation.

The bill provides for funding of the increased liability as follows:

1. The individual contribution of each member of the system is increased by 1% of the annual salary. The present average annual contribution in the system is approximately 7½%.

2. The bill mandates the State Legislature to appropriate the amount required to pay for the additional liability created by the increase in benefits.

3. The bill authorizes the State Treasurer to apply an increase in the interest rate on the investment of the pension fund toward funding the increased liability created by the increased benefits pursuant to the act.

4. The State Treasurer is required pursuant to the provisions of the bill to make an annual report to the Legislature on the cost of funding the increased liability. If the cost of funding the increased liability exceeds the employee contributions and the application of an increase in the interest rate, the State Treasurer is required to recommend to the Legislature an increase in the employee contribution. By the same token, if the employee contribution and the application of increased interest rate exceeds the amount needed to fund the increases liability then the employee contribution is to be reduced.

The present assumed interest rate for pension fund investment is 6%. Actual interest earnings exceed this amount depending on the condition of the stock market. As noted the bill permits the State Treasurer to apply the difference between the assumed interest rate and the actual interest rate toward funding the increased liability created by the increased benefits. The Department of the Treasury and the Division of Pensions anticipates an actual interest rate of 6.5% in calculating the amount available to fund the increased liability. According to their figures the new program will "cash out" over the next four fiscal years as follows:

FY 1979-80	No budget cost to the State.	
FY 1980-81	Gross cost to the State	$17.2 million
	Amount produced by 1% increase in employee contribution	4.7 million
	Amount produced by interest	14.0 million
	Surplus	$1.5 million
FY 1981-82	Gross cost to the State	$18.7 million
	Amount produced by 1% increase in employee contribution	5.2 million
	Amount produced by interest	14.0 million
	Surplus	$500,000
FY 1982-83	Gross cost to the State	$20.4 million
	Amount produced by 1% increase in employee contribution	5.6 million
	Amount produced by interest	not ascertained

The amount of the "offset" produced in fiscal 82-83 by interest remains a question. As noted in the fiscal worksheet of the Treasury Department, "it is not possible for use to determine whether the remaining cost can be met by excess interest earnings because it is difficult to project what such earnings may be that far in the future." In addition, it should be noted that gains in interest earnings will be offset by the impact of inflation on salary levels which is recalculated by the State Actuary every 3 years.

FROM THE OFFICE OF THE GOVERNOR

FOR IMMEDIATE RELEASE

JUNE 18, 1979

FOR FURTHER INFORMATION

PAT SWEENEY

Governor Brendan Byrne today signed S-3207, sponsored by Senator John T. Gregorio (D-Union), in a public ceremony in the Governor's Office.

The bill alters the special retirement formula for benefits in the Police and Firemen's Retirement System from 50 percent to 60 percent after twenty-five years of service.

The bill creates a method whereby the State and the members of the Retirement System, rather than the political subdivisions who are the employers, will fund the increased liability created by the change in benefits.

To help offset the increased liability, individual contributions of each member of the Retirement System will be increased by one percent of the annual salary. The present annual contribution is approximately seven-and-one-half percent.

The formula will not cost the State additional amounts in the next three fiscal years.

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