LEGISLATIVE HISTORY CHECKLIST

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LAWS of 1999

CHAPTER: 132

NJSA:43:16A-16.2
(PERS & PFRS Loans)

BILL NO:A2299 (Substituted for S1282)

SPONSOR(S): Asselta and Gibson

DATE INTRODUCED: July 27, 1998

COMMITTEE:
ASSEMBLY:State Government; Appropriations
SENATE:-----

AMENDED DURING PASSAGE: Yes

DATE OF PASSAGE:
ASSEMBLY:May 10, 1999
SENATE:May 10, 1999

DATE OF APPROVAL: June 25, 1999

THE FOLLOWING ARE ATTACHED IF AVAILABLE:

FINAL TEXT OF BILL: *Yes*2nd Reprint
(Amendments during passage denoted by superscript numbers)

A2299

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

COMMITTEE STATEMENT:
ASSEMBLY:*Yes*
March 4, 1999 (Appropriations)
November 16, 1998 (State Government)

SENATE:*No*

FLOOR AMENDMENT STATEMENTS:*Yes*

LEGISLATIVE FISCAL ESTIMATE: *Yes*

S1282

SPONSORS STATEMENT: *Yes*(Begins on page 2 of original bill)
Bill and Sponsor's Statement identical to A2299

COMMITTEE STATEMENT:
ASSEMBLY: *No*
SENATE: *Yes*

FLOOR AMENDMENT STATEMENTS:*Yes*

LEGISLATIVE FISCAL ESTIMATE: *Yes*
Identical to Legislative Fiscal Estimate for A2299

GOVERNOR'S ACTIONS

VETO MESSAGE: *No*

GOVERNOR'S PRESS RELEASE ON SIGNING: *Yes*

THE FOLLOWING WERE PRINTED:

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REPORTS:*No*

HEARINGS: *No*

NEWSPAPER ARTICLES:*No*

P.L. 1999, CHAPTER 132, ***approved June 25, 1999***
Assembly, No. 2299 ***(Second Reprint)***

AN ACT concerning the repayment of loans from [1][the Police and Firemen's Retirement System of New Jersey and amending P.L.1981, c.370] certain State-administered retirement systems and amending various parts of the statutory law[1].

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

[1]1. Section 2 of P.L.1981, c.212 (C.18A:66-35.1) is amended to read as follows:

2. In the case of any member who retires[, other than on a disability pension or where it is shown to the satisfaction of the board of trustees that the retirement is necessitated by medical illness or disability of the employee,] without paying the full amount so borrowed, the Division of Pensions and Benefits shall [retain the retirement benefit payments, excluding authorized deductions of that member as repayment of the loan until the aggregate amount of the retirement benefit payments are equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive his retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall] deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefit payable on the account of the pensioner either in the form of monthly payments due to his beneficiaries or in the form of lump sum payments payable for pension or group life insurance.[1]

(cf: P.L.1988, c.134, s.1)

[1]2. Section 2 of P.L.1981, c.55 (C.43:15A-34.1) is amended to read as follows:

2. In the case of any member who retires[, other than on a disability pension or where it is shown to the satisfaction of the board

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.
Matter enclosed in superscript numerals has been adopted as follows:
[1] Assembly ASG committee amendments adopted November 16, 1998.
[2] Assembly floor amendments adopted March 15, 1999.

of trustees that the retirement is necessitated by medical illness or disability of the employee,**]** without repaying the full amount so borrowed, the Division of Pensions and Benefits shall **[**retain the retirement benefit payments, excluding authorized deductions of such member as repayment of the loan until the aggregate amount of such retirement benefit payments is equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive his retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall**]** deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the pensioner either in the form of monthly payments due to his beneficiaries or in the form of lump sum payments payable for pension or group life insurance.[1]

(cf: P.L.1988, c.134, s.2)

[1]**[**1.**]**3.[1] Section 2 of P.L.1981, c.370 (C.43:16A-16.2) is amended to read as follows:

2. In the case of any member who retires**[**, other than on a disability pension or where it is shown to the satisfaction of the board of trustees that the retirement is necessitated by medical illness or disability of the employee,**]** without repaying the full amount so borrowed, the Division of Pensions and Benefits shall **[**retain the retirement benefit payments, excluding authorized deductions of such member as repayment of the loan until the aggregate amount of such retirement benefit payments is equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive his retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall**]** deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the pensioner either in the form of monthly payments due

to his beneficiaries or in the form of lump sum payments payable for pension or group life insurance.
(cf: P.L.1988, c.134, s.3)

[2]4. Section 2 of P.L.1997, c.25 (C.43:6A-34.4) is amended to read as follows:

2. In the case of any member who retires[, other than on a disability pension or where it is shown to the satisfaction of the Supreme Court and the Governor that the retirement is necessitated by medical illness or disability of the member,] without repaying the full amount so borrowed, the Division of Pensions and Benefits shall [retain the retirement benefit payments, excluding authorized deductions of such member, as repayment of the loan until the aggregate amount of such retirement benefit payments is equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive the member's retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall] deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the pensioner either in the form of monthly payments due to the pensioner's beneficiaries or in the form of lump sum payments payable for pension or group life insurance.[2]
(cf: P.L.1997, c.25, s.2)

[2]5. Section 29 of P.L.1965, c. 89 (C.53:5A-29) is amended to read as follows:

29. Any member who has at least 3 years of service to [his] the member's credit for which [he] the member has contributed as a member may borrow from the retirement system, an amount equal to not more than 50% of the amount of [his] the member's aggregate contributions, but not less than $50.00; provided, that the amount so borrowed, together with interest thereon, can be repaid by additional deductions from salary, not in excess of 25% of the member's salary, made at the time the salary is paid to the member [but not after the attainment of age 55]. The amount so borrowed, together with interest at the rate of 4% per annum on any unpaid balance thereof, shall be repaid to the retirement system in equal installments by

deductions from the salary of the member at the time the salary is paid or in such lump sum amount to repay the balance of the loan but such installments shall be at least equal to the member's rate of contribution to the retirement system and at least sufficient to repay the amount borrowed with interest thereon [by the time the member attains age 55]. Not more than two loans may be granted to any member in any calendar year. Notwithstanding any other law affecting the salary or compensation of any person or persons to whom this act applies or shall apply, the additional deductions required to repay the loan shall be made. [Any unpaid balance of a loan at the time any benefit may become payable shall be deducted from the benefit otherwise payable.]

Loans shall be made to a member from [his] the member's aggregate contributions. The interest earned on such loans shall be treated in the same manner as interest earned from investments of the retirement system.

In the case of any member who retires without repaying the full amount so borrowed, the Division of Pensions and Benefits shall deduct from the retirement allowance payments the same monthly amount which was deducted from the salary of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a retirant who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the retirant either in the form of monthly payments due to the retirant's beneficiaries or in the form of lump sum payments payable for pension or group life insurance.[2]

(cf: P.L.1971, c.181, s.19)

[1][2.][2][4.[1]] 6.[2] This act shall take effect immediately.

Permits JRS, PERS, PFRS, SPRS and TPAF retirees to repay pension loans through deductions from retirement benefit payments.

ASSEMBLY, No. 2299

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED JULY 27, 1998

Sponsored by:
Assemblyman NICHOLAS ASSELTA
District 1 (Cape May, Atlantic and Cumberland)
Assemblyman JOHN C. GIBSON
District 1 (Cape May, Atlantic and Cumberland)

Co-Sponsored by:
Assemblyman Kelly, Assemblywoman Heck, Assemblymen Cottrell and Malone

SYNOPSIS

Permits PFRS retirees to repay PFRS loans through deductions from retirement allowance.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning the repayment of loans from the Police and Firemen's Retirement System of New Jersey and amending P.L.1981, c.370.

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

1. Section 2 of P.L.1981, c.370 (C.43:16A-16.2) is amended to read as follows:

2. In the case of any member who retires**[**, other than on a disability pension or where it is shown to the satisfaction of the board of trustees that the retirement is necessitated by medical illness or disability of the employee,**]** without repaying the full amount so borrowed, the Division of Pensions <u>and Benefits</u> shall **[**retain the retirement benefit payments, excluding authorized deductions of such member as repayment of the loan until the aggregate amount of such retirement benefit payments is equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive his retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall**]** deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the pensioner either in the form of monthly payments due to his beneficiaries or in the form of lump sum payments payable for pension or group life insurance.

(cf: P.L.1988, c.134, s.3)

2. This act shall take effect immediately.

STATEMENT

At present, the Division of Pensions and Benefits will retain the retirement benefit payments (excluding authorized deductions) of a retiree of the Police and Firemen's Retirement System (PFRS) who has not repaid a loan from the retirement system by the effective date of

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

retirement until the loan has been repaid in full together with interest at the rate of 4% per year. When the loan is repaid, the retiree will begin receiving retirement benefit payments. An exception is available for a member retiring for medical illness or disability.

This bill provides that any PFRS member who retires with an outstanding loan will repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan together with the interest is repaid. At present, only members retiring on a disability pension or for the medical illness or disability can repay loans in this fashion.

If the retiree dies before the loan with interest is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for the pension or group life insurance.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 2299

STATE OF NEW JERSEY

DATED: MARCH 4, 1999

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2299 (1R).

Assembly Bill No. 2299 (1R) permits a member of the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) or the Police and Firemen's Retirement System (PFRS) who retires with an outstanding loan from the respective retirement system by the effective date of retirement repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan together with the interest is repaid.

Under current law, this method of repayment is available only to a member retiring on a disability pension or when retirement is necessitated by medical illness or disability. In general, if a member has an outstanding pension loan balance at retirement the Division of Pensions and Benefits retains the retirement allowance of the retiree (excluding authorized deductions) until the loan, with interest, has been repaid in full.

If the retiree dies before the loan with interest is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for the pension or group life insurance.

FISCAL IMPACT:

Because pension borrowing is at the election of the system members, it is not possible to estimate the total cost of this bill.

The cost to the pension systems of loans, payable by increased employer contributions, is the rate of return the loaned funds would have earned if invested in the assets of the pension systems (the estimated cost to the systems of the $877.8 million in outstanding loans for FY1998 is $41.7 million). To the extent that this bill makes pension loans more attractive to employees approaching retirement, system costs will increase.

ASSEMBLY STATE GOVERNMENT COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2299

with committee amendments

STATE OF NEW JERSEY

DATED: NOVEMBER 16, 1998

The Assembly State Government Committee reports favorably and with committee amendments Assembly, No. 2299.

Generally, if a retiree of the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) or the Police and Firemen's Retirement System (PFRS) has not repaid a loan from the retirement system by the effective date of retirement, the Division of Pensions and Benefits retains the retirement allowance of the retiree (excluding authorized deductions) until the loan, with interest, has been repaid in full. When the loan is repaid, the retiree begins to receive retirement benefit payments.

This bill, as amended, provides that any TPAF, PERS or PFRS member who retires with an outstanding loan will repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan together with the interest is repaid. At present, this method of repayment is available only to a member retiring on a disability pension or when retirement is necessitated by medical illness or disability.

If the retiree dies before the loan with interest is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for the pension or group life insurance.

The committee amended the bill to provide this loan repayment arrangement to members of TPAF and PERS, as well as to members of PFRS.

As reported, this bill is the same as Senate, No. 1282(1R) of 1998.

STATEMENT TO

[First Reprint]
ASSEMBLY, No. 2299

with Assembly Floor Amendments
(Proposed By Assemblyman ASSELTA)

ADOPTED: MARCH 15, 1999

The bill permits members of various State administered retirement systems who retire with an outstanding loan from the respective retirement system to repay the loans through deductions from the retirement benefit payments in the same monthly amount that was deducted from the members' compensation immediately before retirement until the balance of the loan together with the interest is repaid.

These amendments allow Judicial Retirement System members and State Police Retirement System members to repay pension loans made prior to retirement through deductions from their retirement benefit payments. This is in addition to the members of the Teachers' Pension and Annuity Fund, the Public Employees' Retirement System and the Police and Firemen's Retirement System, who were already covered by the bill.

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 2299

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: APRIL 23, 1999

BILL SUMMARY

Assembly Bill No. 2299 (1R) of 1998 permits a member of the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) or the Police and Firemen's Retirement System (PFRS) who retires with an outstanding pension loan to repay the pension loan through deductions from the member's retirement allowance in the same monthly amount that was deducted from the member's compensation as an active employee immediately before retirement until the balance of the loan together with interest is repaid. Under current law, this method of repayment is only available to a member retiring on a disability pension or when retirement is necessitated by medical illness or disability. In general, if a member of a State retirement system has not repaid a pension loan by the effective date of retirement, the Division of Pensions and Benefits retains the member's full pension allowance (excluding authorized deductions) until the loan, with interest, has been paid in full.

OFFICE OF LEGISLATIVE SERVICES

Given the elective nature of borrowing from the retirement systems, it is impossible to estimate the total cost of this bill. Under current law, active members of a State retirement system are permitted to borrow up to one-half of their pension contributions. Pension loans are payable over a maximum of ten years at an annual interest rate of 4 percent per year. If a member retires before repaying the outstanding balance (principal plus interest) of the loan, the net value of the member's retirement allowance is withheld until the loan is recovered. If a member dies before repaying the loan, the outstanding balance is deducted from the proceeds of any benefits (life insurance, return of member's contributions or survivor's pension) to be paid to a surviving beneficiary.

According to the New Jersey Comprehensive Annual Financial Report, dated June 30, 1998, there are $877.8 million in outstanding pension loans from these three retirement systems. The current cost to the retirement systems, payable by increased employer contributions, is the actual rate of return these funds would have earned if invested with the other assets of the retirement systems. The total return on investments of the pension funds was 22.7 percent for the year ending June 30, 1998 and the average annual return, over the last five years, was 15.6 percent.

Using the rate of return, assumed by the actuaries, for the retirement systems of 8.75 percent, the lost investment income on these loans is approximately $41.7 million annually ($877.8 million x 4.0% = $35.1 vs. $877.8 x 8.75% = $76.8, a difference of $41.7 million using simple interest). Over a ten year period, assuming no significant fluctuations in the amounts borrowed, these losses would total approximately $730 million. Under the provisions of this bill, this loss would increase as members approaching retirement take out additional loans and have more time to pay the loans off.

In addition, this proposal may add the risk of default on the repayment of pension loans. Under current law, when an active member dies with an outstanding pension loan, the Division of Pensions and Benefits can deduct the outstanding balance of the loan from the proceeds of any benefits payable to the member's beneficiary. The benefits payable to a beneficiary of an active member of a State pension system are life insurance (for example, for PERS members, non-contributory life insurance is 1 1/2 times salary and contributory life insurance provides an additional 1 1/2 times salary) and the return of the member's contributions plus 2 percent interest. Because a member can only borrow up to one-half of their pension contributions, there will always be sufficient "assets" to cover the outstanding balance of a pension loan.

The provision of this bill states that when a retiree dies, the proceeds of the benefits payable to a member's beneficiary may not be sufficient to repay the outstanding balance of a pension loan. Upon retirement, a member's monthly pension allowance is paid from the member's contributions, in effect, drawing down the "assets" guaranteeing the repayment of any outstanding balance on a pension loan. In addition, upon retirement a member's life insurance benefit is reduced to three sixteenths (18.75%) times salary. The remaining amount of a deceased retiree's pension contributions and life insurance may be insufficient to cover the outstanding balance of the loan, leaving the division no recourse but to recover the outstanding balance of a pension loan from a beneficiary's pension or the retiree's estate.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

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

SENATE, No. 1282

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED JULY 30, 1998

Sponsored by:
Senator ANTHONY R. BUCCO
District 25 (Morris)
Senator JOHN A. GIRGENTI
District 35 (Passaic)

Co-Sponsored by:
Senator Robertson

SYNOPSIS

Permits PFRS retirees to repay PFRS loans through deductions from retirement allowance.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning the repayment of loans from the Police and Firemen's Retirement System of New Jersey and amending P.L.1981, c.370.

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

1. Section 2 of P.L.1981, c.370 (C.43:16A-16.2) is amended to read as follows:

2. In the case of any member who retires**[**, other than on a disability pension or where it is shown to the satisfaction of the board of trustees that the retirement is necessitated by medical illness or disability of the employee,**]** without repaying the full amount so borrowed, the Division of Pensions <u>and Benefits</u> shall **[**retain the retirement benefit payments, excluding authorized deductions of such member as repayment of the loan until the aggregate amount of such retirement benefit payments is equal to the outstanding balance of the loan, together with the interest at the rate of 4% per annum on the amount so borrowed, at which time the retired member shall receive his retirement benefit payments. In the case of a member who retires on a disability pension or because of medical illness or disability without paying the full amount borrowed, the division shall**]** deduct from the retirement benefit payments the same monthly amount which was deducted from the compensation of the member immediately preceding retirement until the balance of the amount borrowed together with the interest at the rate of 4% per annum is repaid. In the case of a pensioner who dies before the outstanding balance of the loan and interest thereon has been recovered, the remaining balance shall be repaid from the proceeds of any other benefits payable on the account of the pensioner either in the form of monthly payments due to his beneficiaries or in the form of lump sum payments payable for pension or group life insurance.

(cf: P.L.1988, c.134, s.3)

2. This act shall take effect immediately.

STATEMENT

At present, the Division of Pensions and Benefits will retain the retirement benefit payments (excluding authorized deductions) of a retiree of the Police and Firemen's Retirement System (PFRS) who has not repaid a loan from the retirement system by the effective date 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.

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

retirement until the loan has been repaid in full together with interest at the rate of 4% per year. When the loan is repaid, the retiree will begin receiving retirement benefit payments. An exception is available for a member retiring for medical illness or disability.

This bill provides that any PFRS member who retires with an outstanding loan will repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan together with the interest is repaid. At present, only members retiring on a disability pension or for the medical illness or disability can repay loans in this fashion.

If the retiree dies before the loan with interest is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for the pension or group life insurance.

SENATE STATE GOVERNMENT, BANKING AND FINANCIAL INSTITUTIONS COMMITTEE

STATEMENT TO

SENATE, No. 1282

with committee amendments

STATE OF NEW JERSEY

DATED: OCTOBER 15, 1998

The Senate State Government, Banking and Financial Institutions Committee reports favorably and with committee amendments Senate, No. 1282.

At present, if a retiree under the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) or the Police and Firemen's Retirement System (PFRS) has not repaid a loan from the retirement system by the effective date of retirement, the Division of Pensions and Benefits retains the retirement allowance of such a retiree until the loan, with interest, has been repaid in full. When the loan is repaid, the retiree begins receiving retirement benefit payments.

This bill provides that any TPAF, PERS or PFRS member who retires with an outstanding loan will repay the loan through deductions from the retirement benefit payments in the same monthly amount that was deducted from the member's compensation immediately before retirement until the balance of the loan, with interest, is repaid. At present, only members retiring on a disability pension or for medical illness or disability can repay loans in this fashion.

If the retiree dies before the loan is repaid, the remaining loan balance will be repaid from the proceeds of any other benefits payable on the account of the retiree, either in the form of monthly payments due to the beneficiaries or in the form of lump sum payments payable for pension or group life insurance.

The committee amended the bill to include the necessary changes to the provisions on the repayment of loans in the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System in order to make the bill applicable to those retirement systems as well as the Police and Firemen's Retirement System.

STATEMENT TO

[First Reprint]
SENATE, No. 1282

with Senate Floor Amendments
(Proposed By Senators BUCCO and GIRGENTI)

ADOPTED: JANUARY 28, 1999

These amendments allow Judicial Retirement System members and State Police Retirement System members to repay pension loans made prior to retirement through deductions from their retirement benefit payments.

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 1282

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: APRIL 23, 1999

BILL SUMMARY

Senate Bill No. 1282 (2R) of 1998 permits a member of the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS) or the Judicial Retirement System (JRS) who retires with an outstanding pension loan to repay the pension loan through deductions from the member's retirement allowance in the same monthly amount that was deducted from the member's compensation as an active employee immediately before retirement until the balance of the loan together with interest is repaid. Under current law, this method of repayment is only available to a member retiring on a disability pension or when retirement is necessitated by medical illness or disability. In general, if a member of a State retirement system has not repaid a pension loan by the effective date of retirement, the Division of Pensions and Benefits retains the member's full pension allowance (excluding authorized deductions) until the loan, with interest, has been paid in full.

OFFICE OF LEGISLATIVE SERVICES

Given the elective nature of borrowing from the retirement systems, it is impossible to estimate the total cost of this bill. Under current law, active members of a State retirement system are permitted to borrow up to one-half of their pension contributions. Pension loans are payable over a maximum of ten years at an annual interest rate of 4 percent per year. If a member retires before repaying the outstanding balance (principal plus interest) of the loan, the net value of the member's retirement allowance is withheld until the loan is recovered. If a member dies before repaying the loan, the outstanding balance is deducted from the proceeds of any benefits (life insurance, return of member's contributions or survivor's pension) to be paid to a surviving beneficiary.

According to the New Jersey Comprehensive Annual Financial Report, dated June 30, 1998, there are $899.4 million in outstanding pension loans from these three retirement systems. The current cost to the retirement systems, payable by increased employer contributions, is the actual rate of return these funds would have earned if invested with the other assets of the retirement systems. The total return on investments of the pension funds was 22.7 percent for the year ending June 30, 1998 and the average annual return, over the last five years, was 15.6 percent.

Using the rate of return, assumed by the actuaries, for the retirement systems of 8.75 percent, the lost investment income on these loans is approximately $42.7 million annually ($899.4 million x 4.0% = $36.0 vs. $899.4 x 8.75% = $78.7, a difference of $42.7 million using simple interest). Over a ten year period, assuming no significant fluctuations in the amounts borrowed, these losses would total approximately $735 million. Under the provisions of this bill, this loss would increase as members approaching retirement take out additional loans and have more time to pay the loans off.

In addition, this proposal may add the risk of default on the repayment of pension loans. Under current law, when an active member dies with an outstanding pension loan, the Division of Pensions and Benefits can deduct the outstanding balance of the loan from the proceeds of any benefits payable to the member's beneficiary. The benefits payable to a beneficiary of an active member of a State pension system are life insurance (for example, for PERS members, non-contributory life insurance is 1 1/2 times salary and contributory life insurance provides an additional 1 1/2 times salary) and the return of the member's contributions plus 2 percent interest. Because a member can only borrow up to one-half of their pension contributions, there will always be sufficient "assets" to cover the outstanding balance of a pension loan.

The provision of this bill states that when a retiree dies, the proceeds of the benefits payable to a member's beneficiary may not be sufficient to repay the outstanding balance of a pension loan. Upon retirement, a member's monthly pension allowance is paid from the member's contributions, in effect, drawing down the "assets" guaranteeing the repayment of any outstanding balance on a pension loan. In addition, upon retirement a member's life insurance benefit is reduced to three sixteenths (18.75%) times salary. The remaining amount of a deceased retiree's pension contributions and life insurance may be insufficient to cover the outstanding balance of the loan, leaving the division no recourse but to recover the outstanding balance of a pension loan from a beneficiary's pension or the retiree's estate.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

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

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Office of the Governor
NEWS RELEASE

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RELEASE: June 25, 1999

Gov. Christie Whitman today signed the following pieces of legislation:

A-2467, sponsored by Assembly Members James W. Holzapfel (R- Monmouth/Ocean) and Gerald J. Luongo (R-Camden/Gloucester), prohibits the manufacture of certain drugs -- often referred to as date rape drugs -- by a leader of a narcotics trafficking network and operation of a production facility for these drugs. Although the Governor recently signed a law criminalizing the sale of the drugs, gamma hydroxybutyrate and flunitrazepam, the law did not include a prohibition on the manufacture of these two drugs. The legislation seeks to correct that oversight and includes these two drugs among the substances to which the offenses of maintaining a drug manufacturing facility and being the leader of a narcotics trafficking network apply. The drugs are used to incapacitate victims and are often referred to as date rape drugs.

A-1300, sponsored by Assembly Members Marion Crecco (R- Essex/Passaic) and Rose Marie Heck (R-Bergen) and Senator Diane B. Allen (R-Burlington/Camden), provides additional civil and criminal penalties for deceptive consumer practices. The bill attempts to protect seniors and persons with disabilities from deceptive consumer practices as follows: (1) a penalty of not more than $10,000 if the violation caused the victim of the violation pecuniary injury and the person knew or should have known that the victim was a senior citizen or a person with a disability; or (2) a penalty of not more than $30,000 if the violation was part of a scheme, plan, or course of conduct directed at senior citizens or persons with disabilities in connection with sales or advertisements. Any penalties assessed will be dedicated to consumer education for seniors and the disabled.

S-442, sponsored by Senator C. Louis Bassano (R-Essex/Union) and Assembly Members Paul DiGaetano (Bergen/Essex/Passaic) and John V. Kelly (R-Bergen/Essex/Passaic), requires each board of education which operates a health education program for students in grades seven through 12 to offer instruction in breast self-examination. The bill specifies that the instruction shall take place as part of the district's implementation of the Core Curriculum Content Standards in Comprehensive Health and Physical Education, and further stipulates that the comprehensive health and physical education curriculum framework shall provide school districts with sample activities that may be used to support implementation of the instructional requirement.

A-2299, sponsored by Assembly Members Nicholas Asselta (R- Cape/May/Atlantic/ Cumberland) and John C. Gibson (R-Cape May/Atlantic/Cumberland) and Senators Anthony R. Bucco (R-Morris) and John A. Girgenti (D-Passaic), permits government retirees to repay pension loans through deductions from their retirement allowances. Under previous law, pension loans taken out by an active member of the various government employee pension systems were required to be repaid upon retirement before pension payments were made.

A-1854, sponsored by Assembly Members Richard H. Bagger (R- Middlesex/Morris /Somerset/ Union) and Leonard Lance (R-Warren/Hunterdon/Mercer) and Senators Robert E. Littell (R-Sussex/Hunterdon/Morris) and Joseph M. Kyrillos, Jr. (R-Middlesex/Monmouth), appropriates $4.5 million to fund the creation of two new grants programs by the New Jersey Historical Commission in the Department of State. Funded with $4 million, the first program will award grants and matching grants as general operating support to public and private history museums, historical societies, historic sites, historical agencies of county or local governments or any related agency or organization. The bill establishes a second grants program with the remaining $500,000 appropriation to support research and publication projects on New Jersey history.

A-1639, sponsored by Assembly Members John C. Gibson (R- Atlantic/Cape May/Cumberland) and Nicholas Asselta (R- Atlantic/Cape May/Cumberland) and Senators James E. Cafiero (R-Atlantic/Cape May/Cumberland) and Robert W. Singer (R- Burlington/Monmouth/Ocean), makes permanent the premium reduction rate for completion of defensive driving courses. The law providing for a mandatory reduction in automobile insurance rates for drivers that successfully completed an approved motor vehicle defensive driving course had been scheduled to sunset on Jan. 1, 2000.

S-316, sponsored by Senators Robert W. Singer (R- Burlington/Monmouth/Ocean) and Louis F. Kosko (R-Bergen) and Assembly Members Melvin Cottrell (R-Burlington. Monmouth/Ocean), Joseph R. Malone, 3d (R-Burlington/Monmouth/Ocean) and Jack Conners (D-Burlington /Camden), allows holders of the Silver Star special license plate to affix a Silver Star insignia to their license plates. The Silver Star is a medal awarded by the armed forces for gallantry in action. The insignia affixed to the Silver Star special license plate highlights the achievement on holders' license plates. The bill authorizes the Director of the Division of Motor Vehicles to issue regulations governing the insignia.

AJR-51, sponsored by Assembly Member LeRoy J. Jones, Jr. (D-Essex) and Senators John O. Bennett (R-Monmouth) and John J. Matheussen (R-Camden/Gloucester), recognizes the "Code Adam" program and commends and encourages adoption of such programs by retail and business establishments. Code Adam is a program developed and utilized by Wal-Mart stores and SAM's Clubs throughout the nation, as well as Shop-Rite stores in New Jersey and New York, to prevent child abductions. Specifically, the Code Adam alarm signals a missing child and alerts all sales personnel to begin a coordinated and pre-arranged search effort to ensure that the child is not removed from the store.

AJR-61, sponsored by Assembly Members Barbara Wright (R- Mercer/Middlesex) and Paul Kramer (R-Mercer/Middlesex) and Senator Peter A. Inverso (R-Mercer/Middlesex), designates certain roads as the Washington Victory Trail. The bill provides that the routes traversed by General George Washington and 2,400 solders of the Continental Army during their historic nine-mile march from their landing site in New Jersey to Trenton in 1776 shall be designated as the Washington Victory Trail. In addition, the resolution directs the Commissioner of the Department of Transportation, in consultation with the New Jersey Historical Commission, to identify and designate these routes of march with appropriate signs.