18A:66-18.1

LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 2002 **CHAPTER:** 11

NJSA: 18A:66-18.1 (Suspends required contributions to health care benefits fund)

BILL NO: S11 (Substituted for A2008)

SPONSOR(S): Lesniak and others

DATE INTRODUCED: February 11, 2002

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

SENATE: State Government; Budget

AMENDED DURING PASSAGE: Yes

DATE OF PASSAGE: **ASSEMBLY:** March 25, 2002

SENATE: March 21, 2002

DATE OF APPROVAL: March 26, 2002

FOLLOWING ARE ATTACHED IF AVAILABLE:

FINAL TEXT OF BILL (2nd reprint enacted)
(Amendments during passage denoted by superscript numbers)

S11

SPONSORS STATEMENT: (Begins on page 3 of original bill) Yes

COMMITTEE STATEMENT: **ASSEMBLY**: No

SENATE: Yes 3-11-2002 (State Govt)
3-18-2002 (Budget)

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL ESTIMATE: Yes

A2008

SPONSORS STATEMENT: (Begins on page 3 of original bill) Yes
Bill and Sponsors Statement identical to S11

COMMITTEE STATEMENT: **ASSEMBLY**: Yes

SENATE: No

FLOOR AMENDMENT STATEMENTS: Yes

LEGISLATIVE FISCAL ESTIMATE: Yes
Identical to fiscal estimate for S11

FINAL VERSION (2nd reprint): Yes

VETO MESSAGE: No

GOVERNOR'S PRESS RELEASE ON SIGNING: No

FOLLOWING WERE PRINTED:

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REPORTS: No

HEARINGS: No

NEWSPAPER ARTICLES: No

P.L. 2002, CHAPTER 11, ***approved March 26, 2002***

Senate, No. 11 ***(Second Reprint)***

AN ACT concerning health care benefits for qualified retirees and their dependents of the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, and amending P.L.1987, c.385 and P.L.1990, c.6.

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

1. Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is amended to read as follows:

2. [1]a.[1] Pension adjustment benefits for members and beneficiaries of the Teachers' Pension and Annuity Fund as provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system.

[1]b.[1] Health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending **[**March 31, 1994**]** [1]**[**June 30, 2000**]** March 31, 1994[1], the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period **[**and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period**]** [1]and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period, except that contributions to increase the balance in the fund shall not be made in State fiscal [2]**[**year**]** years[2] 2002 [2]and 2003[2]. Beginning with the actuarial valuation period ending June 30, [2]**[**2001**]** 2002[2], the contribution shall be computed to provide that the balance in the fund shall be increased by 3/5 of 1% of the salary of the active members for the valuation period.[1] Any monies in a separate fund or trust maintained by the retirement system to pay for health

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] Senate SSG committee amendments adopted March 11, 2002.
[2] Senate SBA committee amendments adopted March 18, 2002.

care benefits for qualified retirees and their dependents as provided in this section may be used [1]in State fiscal year 2002[1] to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.
(cf: P.L.1997, c.115, s.2)

2. Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to read as follows:

2. [1]a.[1] Pension adjustment benefits for members and beneficiaries of the Public Employees' Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability contributions for pension adjustment benefits for active employees of employers other than the State shall be determined for the 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability contributions for the State and other employers shall be 20% for valuation year 1992 and 24% for valuation year 1993, and shall be increased by 2.24% for each valuation year thereafter until the full normal and accrued liability contributions are fully recognized.

[1]b.[1] Health care benefits for retired State employees and their dependents for which the State is required to pay the premiums or periodic charges under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending [March 31, 1994] [1][June 30, 2000] March 31, 1994[1], the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period [and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period] [1]and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period, except that contributions to increase the balance in the fund shall not be made in State fiscal [2][year] years[2] 2002 [2] and 2003 [2]. Beginning with the actuarial valuation period ending June 30, [2][2001] 2002[2], the

contribution shall be computed to provide that the balance in the fund shall be increased by 3/5 of 1% of the salary of the active members for the valuation period.[1] Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used [1]in State fiscal year 2002[1] to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.
(cf: P.L.1997, c.115, s.6)

3. This act shall take effect immediately.

Temporarily suspends certain required contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retiree health care benefit costs.

SENATE, No. 11

STATE OF NEW JERSEY

210th LEGISLATURE

INTRODUCED FEBRUARY 11, 2002

Sponsored by:
Senator RAYMOND J. LESNIAK
District 20 (Union)

SYNOPSIS

Eliminates certain required contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retiree health care benefit costs.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning health care benefits for qualified retirees and their dependents of the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, and amending P.L.1987, c.385 and P.L.1990, c.6.

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

1. Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of the Teachers' Pension and Annuity Fund as provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system.

Health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending **[**March 31, 1994**]** June 30, 2000, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period **[**and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period**]** Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.

(cf: P.L.1997, c.115, s.2)

2. Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of 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.

Public Employees' Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability contributions for pension adjustment benefits for active employees of employers other than the State shall be determined for the 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability contributions for the State and other employers shall be 20% for valuation year 1992 and 24% for valuation year 1993, and shall be increased by 2.24% for each valuation year thereafter until the full normal and accrued liability contributions are fully recognized.

Health care benefits for retired State employees and their dependents for which the State is required to pay the premiums or periodic charges under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending [March 31, 1994] June 30, 2000, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period [and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period] Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.

(cf: P.L.1997, c.115, s.6)

3. This act shall take effect immediately.

STATEMENT

This bill eliminates the requirement that the State pay additional contributions to the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) above the amount necessary to pay the premiums and periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers and State employees, and their dependents, for each year.

Actuarial funding of PRM benefits was eliminated in 1994. The State is required to pay for these benefits on a current, pay-as-you-go basis in accordance with annual contributions estimated by the TPAF and PERS actuaries. However, the 1994 law also required the State to make an annual additional contribution to the TPAF and PERS sufficient to increase from year to year the balance in the PRM funds by an amount equal to one half of 1 percent of the current covered payroll of the active employees in the systems. These additional contributions have been deposited into separate funds in the PERS and TPAF.

Although current law contains no specific authorization for the use of these additional contributions, at the time the legislation to mandate these additional contributions was being considered, the purpose was described as providing a "cushion of reserves" for retiree health care benefits if a crisis developed relative to the pay-as-you-go funding for the benefits, possibly in times of fiscal crisis.

As a means of funding retiree health care benefits in the face of the unprecedented deficits in the current fiscal year and Fiscal Year 2003, the bill eliminates the requirement that the State make the additional contributions beginning with the current fiscal year and authorizes use of the monies already in the separate reserve funds of the PERS and TPAF to meet a portion or all of the current premiums or periodic charges for these benefits. This bill does not alter retiree health care benefits, nor does it relieve the State from the acknowledged obligation to fund the benefits on a pay-as-you-go basis.

SENATE STATE GOVERNMENT COMMITTEE

STATEMENT TO

SENATE, No. 11

with committee amendments

STATE OF NEW JERSEY

DATED: MARCH 11, 2002

The Senate State Government Committee reports favorably and with committee amendments Senate, No. 11.

This bill concerns the funding of State-paid post-retirement medical benefits for qualified retirees and their dependents under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS). Actuarial funding of State-paid post-retirement medical benefits was eliminated in 1994. However, in order to establish a reserve for the funding of these benefits, the law required that the State make annual contributions to these funds so that the balance in the respective benefit funds would be increased by 1/2 of 1% of the salary of the active members for the valuation period. This bill revises that reserve funding provision. It provides that the contribution to the funds will not be made in State fiscal year 2002. Beginning with the actuarial valuation period ending June 30, 2001 applicable, to FY2003 the contribution will be computed to provide that the balance in the fund will be increased by 3/5 of 1% of the salary of the active members for the valuation period.

The bill also provides that:

(1) any monies in the benefit funds may be used in State fiscal year 2002 to pay for the premiums or periodic charges for the benefits for qualified retirees and their dependents; and

(2) the provisions of the bill will not alter health care benefits for qualified retirees and their dependents or relieve the State from its obligation to fund the benefits.

It is estimated that this legislation would reduce State expenditures by approximately $327 million in FY 2002. In FY 2002, the unfunded accrued liability for post-retirement medical benefits is $2.4 billion for PERS retirees and $5.8 billion TPAF retirees.

The committee amended the bill to:

(1) suspend contributions to the benefit funds only in State fiscal year 2002;

(2) provide that beginning with the actuarial valuation period ending June 30, 2001, the contribution will be computed to provide that the balance in the fund will be increased by 3/5 of 1% of the salary of the active members for the valuation period; and

(3) stipulate that monies in the benefit funds may be used only in State fiscal year 2002 to pay for the premiums or periodic charges.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]
SENATE, No. 11

with committee amendments

STATE OF NEW JERSEY

DATED: MARCH 18, 2002

The Senate Budget and Appropriations Committee reports favorably and with committee amendments Senate Bill No. 11 (1R).

This bill, as amended, suspends for two years a statutory requirement that the State make contributions to increase the balances in the accounts from which payment of post-retirement medical (PRM) benefits for most eligible public employees is made. It also authorizes for one year the use of reserves in the accounts to pay those benefits.

Background. The accounts in question are established in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS); they are used to fund PRM benefits for, respectively, qualified retired teachers and State employees, and their dependents.

Actuarial funding of PRM benefits for these retirees was eliminated in 1994 under legislation requiring instead that the State pay for the benefits on a current ("pay-as-you-go") basis through annual contributions estimated by the TPAF and PERS actuaries. The 1994 law required the State, in lieu of accumulating actuarial reserves, to make a contribution to the TPAF and PERS sufficient to increase from year to year the balance in the PRM accounts by an amount equal to 1/2 of 1 percent of the current covered payroll of the active employees in the systems. (Although the law contains no specific authorization for the use of these additional contributions, when the legislation to mandate them was being considered, their purpose was described as providing a "cushion of reserves" for retiree health care benefits.) The statutory program contemplates the deposit of the pay-as-you-go payments and the additional contributions into the special PRM accounts already mentioned.

Bill provisions. The bill suspends for FY2002 and FY2003 the requirement that the State contribute to the two PRM accounts sufficient monies to meet the closing balance requirement. In addition, for FY2002 it authorizes use of the monies already in the accounts to pay the current premiums or periodic charges for these benefits. The bill does not alter retiree health care benefits, nor does it relieve the

State of the obligation to fund the benefits on a pay-as-you-go basis.

Beginning with the actuarial valuation period ending June 30, 2002 (which will affect PRM funding beginning in FY2004), the bill requires that the annual additional contribution to the PRM funds of the TPAF and PERS be sufficient to increase the funds' balance by an amount equal to 3/5 of 1% of the salary of the active members.

The provisions of this bill, as amended, are identical to those of Assembly Bill No. 2008 (2R).

COMMITTEE AMENDMENTS:

Committee amendments (1) extend the bill's suspension of the requirement to increase the balance in the PRM accounts to include FY2003 as well as FY2002, and (2) postpone from FY2003 to FY 2004 the inception of the new 3/5 of 1% balance increase requirement.

FISCAL IMPACT:

For FY2002, the suspension of the requirement to make payments to the PRM accounts sufficient to increase their closing balances, in conjunction with the authority to finance PRM benefits for that fiscal year from the accounts' accumulated reserves, will relieve the State of the need make FY2002 contributions to the accounts from general revenue. This will make the funds previously appropriated for FY2002 benefit charges, but not yet deposited into the accounts, available to offset the anticipated deficit in the State's FY2002 budget. (No funds were budgeted in FY2002 for the annual additional 1/2 of 1 percent of payroll contribution.) The amount of these FY2002 General Fund savings is estimated at $327.8 million.

For FY2003, the suspension of the contribution requirement will relieve the State that year of the need to make a balance-increasing contribution to the accounts of an estimated $51.2 million, which in turn will reduce by the same amount the anticipated deficit in the State's FY2003 budget.

For FY2004, the revival of the balance increase requirement at the new 3/5-of-1-percent-of-covered-payroll level will entail a State contribution that year of approximately $65 million, over and above the pay-as-you-go cost that year to cover PRM benefit charges. That amount represents an increase of 20 percent, or roughly $10.8 million, over the amount that would have been required at the current 1/2-of-1-percent level.

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 11

STATE OF NEW JERSEY

210th LEGISLATURE

DATED: APRIL 23, 2002

SUMMARY

Synopsis: Eliminates certain contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retirees' health care benefit costs.

Type of Impact: Two year savings, State General Fund and Property Tax Relief Fund; cost increase in third year and thereafter.

Agencies Affected: Department of Treasury; Department of Education.

Office of Legislative Services Estimate

Fiscal Impact	FY 2002	FY 2003	FY 2004
State Cost	($327,796,000)	($51,200,000)	$10,800,000

- The Office of Legislative Services (OLS) estimate is based on fiscal information provided by the Executive Branch, but adjusted to account for amendments made to the original version of the bill.

- Allows use of any monies in the post-retirement medical benefits (PRM) funds in fiscal year 2002 to offset State General Fund and the Property Tax Relief Fund appropriations to cover health care premium/periodic charges for retired State employees in the Public Employees' Retirement System (PERS) and retired teachers in the Teachers' Pension and Annuity Fund (TPAF).

- Suspends for fiscal years 2002 and 2003 the required additional contribution to the PRM funds in PERS and TPAF of 1/2 of 1 percent of the active members' salary.

- Beginning in fiscal year 2004, increases the required additional contribution to the PRM funds in PERS and TPAF from 1/2 of 1 percent to 3/5 of 1 percent of the active members' salary.

- The unfunded liability for future PRM benefits payable by the State was calculated in March 2001 by the Division of Pensions at $8.3 billion in FY 2002, rising to $9.1 billion in FY 2003.

BILL DESCRIPTION

Senate Bill No. 11 (2R) of 2002 suspends for fiscal years 2002 and 2003 the requirement that the State pay additional contributions as a reserve to the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) above the amount necessary to pay the premiums/periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers and retired State employees, and their dependents, for each year.

Beginning in fiscal year 2004, the bill increases this annual additional contribution to the TPAF and PERS to one sufficient to increase the balance in the PRM funds by an amount equal to 3/5 of 1 percent of the salary of the active members, an increase of 1/10 of a percentage point over the current 1/2 of 1 percent additional reserve contribution.

The bill permits a drawdown of any reserve balances in the PRM funds to pay the premiums/periodic charges for retirees' health care benefits for State fiscal year 2002.

FISCAL ANALYSIS

EXECUTIVE BRANCH

Fiscal information was received on this bill as introduced, not as amended.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) estimates fiscal year 2002 savings at $327.8 million to the State General Fund and the Property Tax Relief Fund. This saving represents the actual budgeted amounts for the PERS and the TPAF PRM funds for annual health care premium/periodic charges in fiscal year 2002. Funds were not budgeted in fiscal year 2002 for the annual additional contribution of 1/2 of 1 percent of active members' salaries.

For fiscal year 2003, OLS estimates savings of $51.2 million through the suspension of the additional contribution that would have been sufficient to increase the balance of the PRM funds by an amount equal to 1/2 of 1 percent of payroll.

For fiscal year 2004, OLS estimates the total fiscal year cost for the additional contribution of 3/5 of 1 percent at $65 million, an increase of $10.8 million over the estimated $54.2 million that would have been sufficient to increase the balance of the PRM funds by an amount equal to 1/2 of 1 percent of payroll.

OLS also notes that as of March 2001, the unfunded liability for future PRM benefits payable by the State was estimated to be $8.3 billion in fiscal year 2002, growing to $9.1 billion in fiscal year 2003. The depletion of the $327.8 million PRM funds reserve will — all other things being equal — increase the FY 2003 unfunded liabilities by that amount plus accrued interest.

Section:	*State Government*
Analyst:	*James F. Vari* *Associate Fiscal Analyst*
Approved:	*Alan R. Kooney* *Legislative Budget and Finance Officer*

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

ASSEMBLY, No. 2008

STATE OF NEW JERSEY

210th LEGISLATURE

INTRODUCED FEBRUARY 11, 2002

Sponsored by:
Assemblyman ALBIO SIRES
District 33 (Hudson)
Assemblyman JOSEPH J. ROBERTS, JR.
District 5 (Camden and Gloucester)

SYNOPSIS

Eliminates certain required contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retiree health care benefit costs.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning health care benefits for qualified retirees and their dependents of the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, and amending P.L.1987, c.385 and P.L.1990, c.6.

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

1. Section 2 of P.L. 1987, c. 385 (C.18A:66-18.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of the Teachers' Pension and Annuity Fund as provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system.

Health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending **[**March 31, 1994**]** June 30, 2000, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period **[**and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period**]** Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.

(cf: P.L.1997, c.115, s.2)

2. Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to read as follows:

2. Pension adjustment benefits for members and beneficiaries of 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.

Public Employees' Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability contributions for pension adjustment benefits for active employees of employers other than the State shall be determined for the 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability contributions for the State and other employers shall be 20% for valuation year 1992 and 24% for valuation year 1993, and shall be increased by 2.24% for each valuation year thereafter until the full normal and accrued liability contributions are fully recognized.

Health care benefits for retired State employees and their dependents for which the State is required to pay the premiums or periodic charges under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending **[**March 31, 1994**]** June 30, 2000, the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period **[**and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period**]** Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.

(cf: P.L.1997, c.115, s.6)

3. This act shall take effect immediately.

STATEMENT

This bill eliminates the requirement that the State pay additional contributions to the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) above the amount necessary to pay the premiums and periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers and State employees, and their dependents, for each year.

Actuarial funding of PRM benefits was eliminated in 1994. The State is required to pay for these benefits on a current, pay-as-you-go basis in accordance with annual contributions estimated by the TPAF and PERS actuaries. However, the 1994 law also required the State to make an annual additional contribution to the TPAF and PERS sufficient to increase from year to year the balance in the PRM funds by an amount equal to one half of 1 percent of the current covered payroll of the active employees in the systems. These additional contributions have been deposited into separate funds in the PERS and TPAF.

Although current law contains no specific authorization for the use of these additional contributions, at the time the legislation to mandate these additional contributions was being considered, the purpose was described as providing a "cushion of reserves" for retiree health care benefits if a crisis developed relative to the pay-as-you-go funding for the benefits, possibly in times of fiscal crisis.

As a means of funding retiree health care benefits in the face of the unprecedented deficits in the current fiscal year and Fiscal Year 2003, the bill eliminates the requirement that the State make the additional contributions beginning with the current fiscal year and authorizes use of the monies already in the separate reserve funds of the PERS and TPAF to meet a portion or all of the current premiums or periodic charges for these benefits. This bill does not alter retiree health care benefits, nor does it relieve the State from the acknowledged obligation to fund the benefits on a pay-as-you-go basis.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2008

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: MARCH 4, 2002

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2009, with committee amendments.

Assembly Bill No. 2009, as amended, suspends for State fiscal years 2002 and 2003 the requirement that the State pay additional contributions to the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) above the amount necessary to pay the premiums and periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers and State employees, and their dependents, for each year.

Actuarial funding of PRM benefits was eliminated in 1994. The State is required to pay for these benefits on a current, pay-as-you-go basis in accordance with annual contributions estimated by the TPAF and PERS actuaries. However, the 1994 law also required the State to make an annual additional contribution to the TPAF and PERS sufficient to increase from year to year the balance in the PRM funds by an amount equal to 1/2 of 1 % of the current covered payroll of the active employees in the systems. These additional contributions have been deposited into separate funds in the PERS and TPAF.

Although current law contains no specific authorization for the use of these additional contributions, at the time the legislation to mandate these additional contributions was being considered, the purpose was described as providing a "cushion of reserves" for retiree health care benefits if a crisis developed relative to the pay-as-you-go funding for the benefits, possibly in times of fiscal crisis.

As a means of funding retiree health care benefits in the face of the unprecedented deficits in the current fiscal year and Fiscal Year 2003, the bill suspends the requirement that the State make the additional contributions FY2002 and FY2003 and authorizes use of the monies already in the separate reserve funds of the PERS and TPAF in FY2002 and FY2003 to meet a portion or all of the current premiums or periodic charges for these benefits. This bill does not alter retiree health care benefits, nor does it relieve the State from the acknowledged obligation to fund the benefits on a pay-as-you-go basis.

Beginning with the actuarial valuation period ending June 30, 2002 (which impacts State FY2004) the bill increases the annual additional contribution to the TPAF and PERS to one sufficient to increase the balance in the PRM funds by an amount equal to 3/5 of 1% of the salary of the active members.

FISCAL IMPACT:

The total General Fund savings, under the provisions of this bill, in FY 2002 is estimated at $327.8 million, representing the actual budgeted amounts for the TPAF and PERS PRM funds. The estimated savings of $198.9 million in FY 2003 are based on the elimination for that year of the additional contribution by the State to maintain a reserve.

COMMITTEE AMENDMENTS:

The amendments suspend for FY2002 and FY2003, rather than eliminate, the additional contributions into separate funds in the PERS and TPAF; increases the annual additional contribution to the TPAF and PERS to one sufficient to increase the balance in the PRM funds by an amount equal to 3/5 of 1% of the salary of the active members beginning with the actuarial valuation period ending June 30, 2002; and limit to FY2002 and FY2003 the authorization to use the monies already in the separate reserve funds of the PERS and TPAF to meet a portion or all of the current premiums or periodic charges for benefits.

Minority Statement
by
Assemblymen Gregg and Corodemus, Assemblywoman Heck and Assemblyman Pennachio

This bill eliminates for two years the pre-funding of retiree health care benefits for the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS). It also permits the State to use the balances in the post-retirement medical (PRM) reserve accounts to pay the current year cost of benefits. According to the sponsors, this legislation is one component of a plan to bring the FY2002 budget into balance and is needed to enhance lagging revenues caused by the events of September 11, 2001 and the national economic recession. While we believe steps must be taken to bring the FY2002 budget into balance, this bill outlines a plan that seriously jeopardizes the stability of the post-retirement medical accounts that have been established to provide medical care to retired teachers and other public employees and their dependents.

We offered changes to the bill that would have made the taking of this one-shot revenue more palatable. These amendments would have provided the State treasury with the one-time revenue it needs, while protecting future benefits. We believe that the use of the balance in the fund should be for one year and one year only. Anything beyond this should be considered in the context of developing the fiscal year 2003 budget. Also, we believe that if the State is to use the reserves currently in the post-retirement medical accounts during times of economic hardship, then the balances should be replenished during times of economic prosperity. This “cushion of reserves” provides current and future retirees with the peace of mind to know benefits will be available when they are most in need. Unfortunately, neither change was accepted.

We are unable to support the bill without the amendments.

STATEMENT TO

[First Reprint]
ASSEMBLY, No. 2008

with Assembly Floor Amendments
(Proposed By Assemblyman SIRES)

ADOPTED: MARCH 14, 2002

This amendment would permit the use of any monies in the separate post-retirement medical reserve funds, maintained in the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF), to pay for health care benefits for qualified retirees and their dependents only in State fiscal year 2002, and not also in State fiscal year 2003 as the bill currently provides.

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

ASSEMBLY, No. 2008

STATE OF NEW JERSEY

210th LEGISLATURE

DATED: APRIL 23, 2002

SUMMARY

Synopsis: Eliminates certain contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retirees' health care benefit costs.

Type of Impact: Two year savings, State General Fund and Property Tax Relief Fund; cost increase in third year and thereafter.

Agencies Affected: Department of Treasury; Department of Education.

Office of Legislative Services Estimate

Fiscal Impact	FY 2002	FY 2003	FY 2004
State Cost	($327,796,000)	($51,200,000)	$10,800,000

! The Office of Legislative Services (OLS) estimate is based on fiscal information provided by the Executive Branch, but adjusted to account for amendments made to the original version of the bill.

! Allows use of any monies in the post-retirement medical benefits (PRM) funds in fiscal year 2002 to offset State General Fund and the Property Tax Relief Fund appropriations to cover health care premium/periodic charges for retired State employees in the Public Employees' Retirement System (PERS) and retired teachers in the Teachers' Pension and Annuity Fund (TPAF).

! Suspends for fiscal years 2002 and 2003 the required additional contribution to the PRM funds in PERS and TPAF of 1/2 of 1 percent of the active members' salary.

! Beginning in fiscal year 2004, increases the required additional contribution to the PRM funds in PERS and TPAF from 1/2 of 1 percent to 3/5 of 1 percent of the active members' salary.

! The unfunded liability for future PRM benefits payable by the State was calculated in March 2001 by the Division of Pensions at $8.3 billion in FY 2002, rising to $9.1 billion in FY 2003.

BILL DESCRIPTION

Assembly Bill No. 2008 (2R) of 2002 suspends for fiscal years 2002 and 2003 the requirement that the State pay additional contributions as a reserve to the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) above the amount necessary to pay the premiums/periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers and retired State employees, and their dependents, for each year.

Beginning in fiscal year 2004, the bill increases this annual additional contribution to the TPAF and PERS to one sufficient to increase the balance in the PRM funds by an amount equal to 3/5 of 1 percent of the salary of the active members, an increase of 1/10 of a percentage point over the current 1/2 of 1 percent additional reserve contribution.

The bill permits a drawdown of any reserve balances in the PRM funds to pay the premiums/periodic charges for retirees' health care benefits for State fiscal year 2002.

FISCAL ANALYSIS

EXECUTIVE BRANCH

Fiscal information was received on this bill as introduced, not as amended.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) estimates fiscal year 2002 savings at $327.8 million to the State General Fund and the Property Tax Relief Fund. This saving represents the actual budgeted amounts for the PERS and the TPAF PRM funds for annual health care premium/periodic charges in fiscal year 2002. Funds were not budgeted in fiscal year 2002 for the annual additional contribution of 1/2 of 1 percent of active members' salaries.

For fiscal year 2003, OLS estimates savings of $51.2 million through the suspension of the additional contribution that would have been sufficient to increase the balance of the PRM funds by an amount equal to 1/2 of 1 percent of payroll.

For fiscal year 2004, OLS estimates the total fiscal year cost for the additional contribution of 3/5 of 1 percent at $65 million, an increase of $10.8 million over the estimated $54.2 million that would have been sufficient to increase the balance of the PRM funds by an amount equal to 1/2 of 1 percent of payroll.

OLS also notes that as of March 2001, the unfunded liability for future PRM benefits payable by the State was estimated to be $8.3 billion in fiscal year 2002, growing to $9.1 billion in fiscal year 2003. The depletion of the $327.8 million PRM funds reserve will — all other things being equal — increase the FY 2003 unfunded liabilities by that amount plus accrued interest.

Section:	*State Government*
Analyst:	*James F. Vari* *Associate Fiscal Analyst*
Approved:	*Alan R. Kooney* *Legislative Budget and Finance Officer*

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

[Second Reprint]

ASSEMBLY, No. 2008

STATE OF NEW JERSEY

210th LEGISLATURE

INTRODUCED FEBRUARY 11, 2002

Sponsored by:
Assemblyman ALBIO SIRES
District 33 (Hudson)
Assemblyman JOSEPH J. ROBERTS, JR.
District 5 (Camden and Gloucester)

Co-Sponsored by:
Assemblyman Guear

SYNOPSIS

Temporarily suspends certain required contributions to health care benefits fund for PERS and TPAF retirees and dependents; permits use of money in fund for retiree health care benefit costs.

CURRENT VERSION OF TEXT

As amended by the General Assembly on March 14, 2002.

(Sponsorship Updated As Of: 3/12/2002)

AN ACT concerning health care benefits for qualified retirees and their dependents of the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, and amending P.L.1987, c.385 and P.L.1990, c.6.

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

1. Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is amended to read as follows:

2. [1]a.[1] Pension adjustment benefits for members and beneficiaries of the Teachers' Pension and Annuity Fund as provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system.

[1]b.[1] Health care benefits for qualified retirees and their dependents as provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending **[**March 31, 1994**]** [1]**[**June 30, 2000**]** March 31, 1994[1], the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period **[**and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period**]** [1]and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period, except that contributions to increase the balance in the fund shall not be made in State fiscal years 2002 and 2003. Beginning with the actuarial valuation period ending June 30, 2002, the contribution shall be computed to provide that the balance in the fund shall be increased by 3/5 of 1% of the salary of the active members for the valuation period.[1] Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used [1]in State fiscal [2]**[**years**]** year[2] 2002 [2]**[**and

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 AAP committee amendments adopted March 4, 2002.
[2] Assembly floor amendments adopted March 14, 2002.

2003[1]][2] to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.
(cf: P.L.1997, c.115, s.2)

2. Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended to read as follows:

2. [1]a.[1] Pension adjustment benefits for members and beneficiaries of the Public Employees' Retirement System provided by the "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.), shall be paid by the retirement system and shall be funded as employer obligations by the same method provided by law for the funding of employer obligations for the basic retirement benefits provided by the retirement system. Normal and accrued liability contributions for pension adjustment benefits for active employees of employers other than the State shall be determined for the 1992 valuation year and shall be phased in so that the level of recognition of the full normal and accrued liability contributions for the State and other employers shall be 20% for valuation year 1992 and 24% for valuation year 1993, and shall be increased by 2.24% for each valuation year thereafter until the full normal and accrued liability contributions are fully recognized.

[1]b.[1] Health care benefits for retired State employees and their dependents for which the State is required to pay the premiums or periodic charges under the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid by the retirement system through a separate fund or trust of the retirement system in accordance with the requirements of the federal Internal Revenue Code. Beginning with the actuarial valuation period ending [March 31, 1994] [1][June 30, 2000] March 31, 1994[1], the actuary of the retirement system shall annually compute a contribution to fund these health care benefits which shall be the amount necessary to pay the anticipated premiums or periodic charges for the benefits for the following valuation period [and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period] [1]and to provide that the balance in the fund as of the end of the following valuation period shall be increased by 1/2 of 1% of the salary of the active members for the valuation period, except that contributions to increase the balance in the fund shall not be made in State fiscal years 2002 and 2003. Beginning with the actuarial valuation period ending June 30, 2002, the contribution shall be computed to provide that the balance in the fund shall be increased by 3/5 of 1% of the salary of the active members for the valuation

period.[1] Any monies in a separate fund or trust maintained by the retirement system to pay for health care benefits for qualified retirees and their dependents as provided in this section may be used [1]in State fiscal [2]**[**years**]** year[2] 2002 [2]**[**and 2003[1]**]**[2] to pay the premiums or periodic charges for the benefits. If the assets in the fund are insufficient to pay the premiums or periodic charges for the benefits, they shall be paid directly by the State. Nothing hereinabove shall alter health care benefits for qualified retirees and their dependents or relieve the State from its acknowledged obligation to fund the benefits.
(cf: P.L.1997, c.115, s.6)

3. This act shall take effect immediately.