18A: 66-18

LEGISLATIVE HISTORY CHECKLIST

Compiled by the NJ State Law Library

(State administered retirement--contributions)

NJSA: 18A:66-18

LAWS OF: 1997 **CHAPTER:** 115

BILL NO: S2148

SPONSOR(S): Ewing

DATE INTRODUCED: May 22, 1997

COMMITTEE: **ASSEMBLY:** ___

SENATE: ___

AMENDED DURING PASSAGE: No

DATE OF PASSAGE: **ASSEMBLY:** June 5, 1997

SENATE: June 5, 1997

DATE OF APPROVAL: June 5, 1997

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes

COMMITTEE STATEMENT: **ASSEMBLY:** No

SENATE: No

FISCAL NOTE: Yes

VETO MESSAGE: No

MESSAGE ON SIGNING: No

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: No

KBP:pp

P.L. 1997, CHAPTER 115, ***approved June 5, 1997***
Senate, No. 2148

AN ACT concerning employer and employee contributions to the State retirement systems and revising various parts of the statutory law.

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

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

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

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

b. Upon the basis of the tables recommended by the actuary which the board of trustees adopts and regular interest, the actuary of the board shall **[**compute the**]** annually determine if there is an amount of the accrued liability of the retirement system **[**as of March 31, 1992**]** , computed under the projected unit credit method, **[**excluding**]** including the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1987, c.385 (C.18A:66-18.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. **[**Using**]** This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, **[**the actuary**]** shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the

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

Matter underlined thus is new matter.

Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed [40] 30 years [on initial application of this section as amended by this act, P.L.1994, c.62]. This shall be known as the "accrued liability contribution." [Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution.] Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L. , c. (now pending before the Legislature as), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" for a valuation period means:

(1) the valuation assets; less

(2) the actuarial accrued liability for basic benefits and pension adjustment benefits, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1991, c.231 and P.L.1993, c.163 for employers other than the State; less

(3) the contributory group insurance premium fund created by

N.J.S.18A:66-77; less

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

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

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

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

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

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under N.J.S.18A:66-29 shall be reduced by ½ of 1% from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than ½ of 1%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State for the fiscal year beginning immediately prior to the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

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

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

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

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

(cf: P.L.1994, c.62, s.2)

2. 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. [Normal and accrued liability contributions for pension adjustment benefits for active employees 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 shall be 20% for valuation year 1992 and 23.33% for valuation year 1993, and shall be increased by 2.33% for each valuation year thereafter until the full normal and accrued liability contributions are fully recognized.]

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, 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. 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.
(cf: P.L.1994, c.62, s.3)

3. Section 33 of P.L.1973, c.140 (C.43:6A-33) is amended to read as follows:

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

b. Upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall **[**compute the**]** annually determine if there is an amount of the accrued liability of the retirement system **[**as of June 30, 1992**]**, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. **[**Using**]** This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, **[**the actuary**]** shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the commission and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed **[**40**]** 30 years **[**on initial application of this section as amended by this act, P.L.1994, c.62**]**. This shall be known as the "accrued liability contribution." **[**Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution.**]** Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1996 shall be the full market value of the assets as of that date and shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L. , c. (now pending before the Legislature as), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" means the valuation assets for a valuation period less the actuarial accrued liability for the valuation period, if the sum is greater than zero. If there are excess valuation assets for the valuation period ending June 30, 1996, the normal contributions for the valuation periods ending June 30, 1996 and June 30, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets for a valuation period ending after June 30, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

(1) for valuation periods ending June 30, 1997 through June 30, 2001, to the extent possible by up to 100% of the excess valuation assets;

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

(3) for the valuation period ending June 30, 2003, to the extent possible by up to 68% of the excess valuation assets; and

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

c. The actuary shall certify annually the aggregate amount payable to the contingent reserve fund in the ensuing year, which amount shall be equal to the sum of the amounts described in this section. The State shall pay into the contingent reserve fund during the ensuing year the amount so determined.

The cash death benefits, payable as the result of contribution by the State under the provisions of this act upon the death of a member in active service and after retirement, shall be paid from the contingent reserve fund.

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

(cf: P.L.1994, c.62, s.5)

4. Section 7 of P.L.1941, c.220 (C.43:7-13) is amended to read as follows:

7. For the purpose of paying the pensions, a fund shall be created as follows:

(a) There shall be deducted from every payment of salary to a prison officer benefited by this act, 6% of the amount thereof.

(b) That the State shall pay into said fund yearly an amount equal to 6% of the total salaries paid to the said prison officers who shall benefit by this act, which amount shall be submitted to the Legislature yearly by the pension commission. The Legislature shall make an appropriation sufficient to provide for such obligation of the State;

(c) There shall be added to such fund all fines imposed upon any such prison officer, all money donated to the fund, all moneys deducted from the salary of such prison officers because of absence or loss of time due to suspension, and 1/2 of all rewards paid for any purpose to such prison officer;

(d) If there shall not be sufficient money in the fund so created, the Legislature shall include in any appropriation bill a sum sufficient to meet the requirements of the fund for the time being;

(e) All pensions granted under this article shall be exempt from any State or municipal tax, levy and sale, garnishment or attachment, or any other process whatsoever, and shall be unassignable.

<u>The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.</u>

(cf: P.L.1969, c.56, s.5).

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

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

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

b. [Upon] <u>With respect to employers other than the State, upon</u> the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability of the retirement system as of March 31, 1992 under the projected unit credit method, excluding the liability for pension adjustment benefits for active employees funded pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

<u>With respect to the State, upon the basis of the tables recommended by the actuary which the commission adopts and regular interest, the actuary shall annually determine if there is an amount of the accrued liability of the retirement system, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current</u>

valuation period, the actuary, using the total amount of this unfunded accrued liability, shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the commission and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose. including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending March 31, 1996 shall be the full market value of the assets as of that date and , with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L. , c. (now pending before the Legislature as), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

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

(1) the valuation assets allocated to the State; less

(2) the actuarial accrued liability of the State for basic benefits and pension adjustment benefits under the retirement system; less

(3) the contributory group insurance premium fund, created by

section 4 of P.L.1954, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

(4) the post retirement medical premium fund, created pursuant to section 2 of P.L.1990, c.6 (C.43:15A-24.1), as amended by section 8 of P.L.1994, c.62; less

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

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

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

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

(3) the contributory group insurance premium fund, created by section 4 of P.L.1954, c.214 (C.43:15A-91), as amended by section 4 of P.L.1960, c.79; less

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

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

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

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

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

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

For calendar years 1998 and 1999, the rate of contribution of members of the retirement system under section 25 of P.L.1954, c.84 (C.43:15A-25) shall be reduced by ½ of 1% from excess valuation assets. Thereafter, the rate of contribution of members of the retirement system under that section for a calendar year shall be reduced equally with normal contributions to the extent possible, but not by more than ½ of 1%, from excess valuation assets if the State Treasurer determines that excess valuation assets shall be used to reduce normal contributions by the State and local employers for the fiscal year beginning immediately prior to the calendar year, or for the calendar year for local employers whose fiscal year is the calendar year, and excess valuation assets above the amount necessary to fund the reduction for that calendar year in the member contribution rate plus an equal reduction in the normal contribution shall be available for the further reduction of normal contributions, subject to the limitations prescribed by this subsection.

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

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

(cf: P.L.1994, c.62, s.7)

6. 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 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 <u>of employers other than the State</u> 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, 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. 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.

(cf: P.L.1994, c.62, s.8)

7. R.S.43:16-5 is amended to read as follows:

43:16-5. For the purpose of paying the pensions provided by this chapter, all pension funds heretofore created and in existence pursuant to the provisions of an act entitled "An act providing for the retirement of policemen and firemen of the police and fire departments in municipalities of this State, including all police officers having supervision of regulation of traffic upon county roads, and providing a pension for such retired policemen and firemen and members of the police and fire departments, and the widows, children and sole dependent parents of deceased members of said departments," approved April 15, 1920 (P.L.1920, c.160), and chapter 16 of Title 43 of the Revised Statutes, shall, from and after July 1, 1953, be consolidated, and, as so consolidated, shall be transferred to and placed under the Consolidated Police and Firemen's Pension Fund created by the provisions of this chapter. All rights and privileges created and extended to members of a municipal police department or of a paid or part-paid fire department or of a county police department, including members of the paid or part-paid fire department of any fire district located in any township which has adopted said act or said chapter of the Revised Statutes are hereby expressly preserved, continued and transferred from said pension funds to said consolidated fund. Nothing herein contained shall be deemed to affect or impair the right of any beneficiary of any of the funds so created, but all rights of such beneficiaries which have accrued or may accrue in or against any such pension fund shall be deemed to have accrued or to accrue against the funds so consolidated. Said consolidated fund shall be maintained as follows:

(a) There shall be deducted from every payment of salary to each member, as defined in the supplement to this chapter enacted by laws of 1944, c.253, s.12, as amended and supplemented, and paid into said consolidated fund 7% of the amount thereof.

(b) All employers, as defined in the supplement to this chapter enacted by laws of 1944, c.253, s.21, as amended and supplemented, shall contribute to the said consolidated fund in the following manner and amounts:

(1) An amount equal to 6% of the total of salaries annually paid to the members of the consolidated fund under said employer's jurisdiction, which shall be known as the employer's normal contribution, and which shall be paid into said fund no later than April 1 of the State's fiscal year in which payment is due.

(2) An additional amount annually for a period of 30 years, commencing July 1, 1953, equal to 66 2/3% of the share of the particular employer of the annual amortization payment determined by the actuary to be required to bring the fund to a state of actuarial solvency at the end of the said 30-year period. In determining an employer's share of said annual amortization payment, the actuary shall determine separately, and give due credit to the value of the assets transferred by such employer to said consolidated fund. The amount of each of such annual payments shall be certified by the fund to the treasurer of each employer prior to the first day of the year in which such payment is required to be made, and said amount shall be appropriated in said employer's budget for that year. Said annual payment, which shall be known as the employer's accrued liability contribution, shall be made in two equal portions; the first on the first day of each year, and the second on July 1 of each year.

(3) An additional amount to be paid each year following the termination of the 30-year period provided for in subsection (b)(2) of this section, sufficient to meet the requirements of the fund.

(4) A fee, payable no later than April 1 of the State's fiscal year in which payment of the employer's normal contribution is due and consisting of such proportion of the administrative expense of the consolidated fund as the number of active and retired members under

the jurisdiction of such employer, or their beneficiaries, then bears to the total number of active and retired members under the jurisdiction of such employer, or their beneficiaries, then bears to the total number of active and retired members and beneficiaries in the consolidated fund.

(c) The State of New Jersey shall contribute annually, throughout a period of 20 years, commencing July 1, 1972, such amount as may be necessary to make up the balance of the accrued liability of the consolidated fund. The amount of such annual contributions by the State shall be certified to the State Treasurer by the actuary at the time required for other State departmental budgetary certifications. All funds necessary to meet the State's share of said annual payments shall be included in the annual State budget and appropriated by the Legislature.

(d) If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by the act, interest at the rate of 10% per annum shall commence to run against unpaid balance thereof on the first day after such thirtieth day.

If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the pension fund, interest at the rate of 10% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such fifteenth day.

(e) The accrued liability contribution of any employer shall be payable by the employer for the entire period of the financing of such liability and shall continue to be due and owing to the fund even when there are no longer any beneficiaries entitled to benefits.

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

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

(h) Upon the basis of tables recommended by the actuary which the commission adopts after consultation with the Director of the Division of Pensions <u>and Benefits</u>, the actuary shall compute the amount of unfunded liability of the fund as of June 30, 1990 which is not already covered by the assets of the fund, valued in accordance with the asset valuation method established in this section, and prospective employer normal contributions and employee contributions. Using the total amount of this unfunded liability, the actuary shall compute the amount of the flat annual payment which, if paid in each succeeding fiscal year, commencing with July 1, 1991, for a period of nine years, will provide for this liability. This payment shall be increased or decreased in succeeding fiscal years to amortize any actuarial loss or gain over the remaining time in this nine-year period. Any unfunded liability remaining after this nine-year period shall be funded by direct State appropriations. The actuary shall annually certify over the nine-year period the amount payable to the fund in the ensuing year, and the State shall pay into the fund during the ensuing year the amount so certified. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

[The value of the assets for the valuation period ending June 30, 1990 shall be the full market value of the assets as of that date. The value of the assets for the valuation period ending June 30, 1991 shall be the value of the assets for the preceding valuation period increased by 8 3/4%, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by 4 3/8%, plus 20% of the difference between this expected value and the full market value of the assets as of June 30, 1991.] The value of the assets for the valuation periods ending on or after June 30, 1992 shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period.

The tables of actuarial assumptions previously adopted by the commission for the valuation periods ending June 30, 1990 and June 30, 1991 shall be applicable to the revaluations of the retirement system under P.L.1992, c.125 (C.43:4B-1 et al.).

(cf: P.L.1992, c.125, s.10)

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

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

(2) The uniform percentage contribution rate for members shall be 8.5% of compensation.

(3) (Deleted by amendment, P.L.1989, c.204).

(4) Upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute annually, beginning as of June 30, 1991, the amount of contribution which shall be the normal cost as computed under the projected unit credit method attributable to service rendered under the retirement system for the year beginning on July 1 immediately succeeding the date of the computation. This shall be known as the "normal contribution."

(5) (Deleted by amendment, P.L.1989, c.204).

(6) (Deleted by amendment, P.L.1994, c.62.)

(7) Each employer shall cause to be deducted from the salary of each member the percentage of earnable compensation prescribed in

subsection (2) of this section. To facilitate the making of deductions, the retirement system may modify the amount of deduction required of any member by an amount not to exceed 1/10 of 1% of the compensation upon which the deduction is based.

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

(9) [Upon] <u>With respect to employers other than the State, upon</u> the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall compute the amount of the accrued liability as of June 30, 1991 under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. Using the total amount of this unfunded accrued liability, the actuary shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 40 years on initial application of this section as amended by this act, P.L.1994, c.62. This shall be known as the "accrued liability contribution." Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1991 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution. Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section.

With respect to the State, upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall annually determine if there is an amount of the accrued liability, computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed 30 years. This shall be known as the "accrued liability contribution." Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1995 shall be the full market value of the assets as of that date and , with respect to the valuation assets allocated to the State, shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L. , c. (now pending before the Legislature as), paid to the system by the New Jersey Economic

Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" means, with respect to the valuation assets allocated to the State, the valuation assets allocated to the State for a valuation period less the actuarial accrued liability of the State for the valuation period, if the sum is greater than zero. "Excess valuation assets" means, with respect to the valuation assets allocated to other employers, the valuation assets allocated to the other employers for a valuation period less the actuarial accrued liability of the other employers for the valuation period, excluding the unfunded accrued liability for early retirement incentive benefits pursuant to P.L.1993, c.99 for the other employers, if the sum is greater than zero.

If there are excess valuation assets allocated to the State or to the other employers for the valuation period ending June 30, 1995, the normal contributions payable by the State or by the other employers for the valuation periods ending June 30, 1995, and June 30, 1996 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets allocated to the State or to the other employers, respectively, provided that with respect to the excess valuation assets allocated to the State, the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets allocated to the State or to the other employers for a valuation period ending after June 30, 1995, the State Treasurer may reduce the normal contribution payable by the State or by other employers for the next valuation period as follows:

(1) for valuation periods ending June 30, 1996 through June 30, 2000, to the extent possible by up to 100% of the excess valuation assets allocated to the State or to the other employers, respectively;

(2) for the valuation period ending June 30, 2001, to the extent possible by up to 84% of the excess valuation assets allocated to the State or to the other employers, respectively;

(3) for the valuation period ending June 30, 2002, to the extent possible by up to 68% of the excess valuation assets allocated to the State or to the other employers, respectively; and

(4) for valuation periods ending on or after June 30, 2003, to the extent possible by up to 50% of the excess valuation assets allocated to the State or to the other employers, respectively.

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

(10) The treasurer or corresponding officer of the employer shall pay to the State Treasurer no later than April 1 of the State's fiscal year in which payment is due the amount so certified as payable by the employer, and shall pay monthly to the State Treasurer the amount of the deductions from the salary of the members in the employ of the employer, and the State Treasurer shall credit such amount to the appropriate fund or funds, of the retirement system.

If payment of the full amount of the employer's obligation is not made within 30 days of the due date established by this act, interest at the rate of 10% per annum shall commence to run against the unpaid balance thereof on the first day after such 30th day.

If payment in full, representing the monthly transmittal and report of salary deductions, is not made within 15 days of the due date established by the retirement system, interest at the rate of 10% per annum shall commence to run against the total transmittal of salary deductions for the period on the first day after such 15th day.

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

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

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

(14) Commencing with valuation year 1991, with payment to be made in Fiscal Year 1994, the Legislature shall annually appropriate and the State Treasurer shall pay into the pension accumulation fund of the retirement system an amount equal to 1.1% of the compensation of the members of the system for the valuation year to fund the benefits provided by section 16 of P.L.1964, c.241 (C.43:16A-11.1), as amended by P.L.1979, c.109.

(cf: P.L.1994, c.62, s.11)

9. Section 34 of P.L.1965, c.89 (C.53:5A-34) is amended to read as follows:

34. The Contingent Reserve Fund shall be the fund in which shall be credited contributions made by the State.

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

b. Upon the basis of the tables recommended by the actuary which the board adopts and regular interest, the actuary shall [compute the] annually determine if there is an amount of the accrued liability of the retirement system [as of June 30, 1992], computed under the projected unit credit method, which is not already covered by the assets of the retirement system, valued in accordance with the asset valuation method established in this section. [Using] This shall be known as the "unfunded accrued liability." If there was no unfunded accrued liability for the valuation period immediately preceding the current valuation period, the actuary, using the total amount of this unfunded accrued liability, [the actuary] shall compute the initial amount of contribution which, if the contribution is increased at a specific rate and paid annually for a specific period of time, will amortize this liability. The State Treasurer shall determine, upon the advice of the Director of the Division of Pensions and Benefits, the board of trustees and the actuary, the rate of increase for the contribution and the time period for full funding of this liability, which shall not exceed [40] 30 years [on initial application of this section as amended by this act, P.L.1994, c.62]. This shall be known as the "accrued liability contribution." [Any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for the 10 valuation years following valuation year 1992 shall serve to increase or decrease, respectively, the unfunded accrued liability contribution.] Thereafter, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, unless an increase in the amortization period will cause it to exceed 30 years. If an increase in the amortization period as a result of actuarial losses for a valuation year would exceed 30 years, the accrued liability contribution shall be computed for the valuation year in the same manner provided for the computation of the initial accrued liability contribution under this section. The State may pay all or any portion of its unfunded accrued liability under the retirement system from any source of funds legally available for the purpose, including, without limitation, the proceeds of bonds authorized by law for this purpose.

The value of the assets to be used in the computation of the contributions provided for under this section for valuation periods shall be the value of the assets for the preceding valuation period increased by the regular interest rate, plus the net cash flow for the valuation period (the difference between the benefits and expenses paid by the system and the contributions to the system) increased by one half of the regular interest rate, plus 20% of the difference between this expected value and the full market value of the assets as of the end of the valuation period. This shall be known as the "valuation assets." Notwithstanding the first sentence of this paragraph, the valuation assets for the valuation period ending June 30, 1996 shall be the full market value of the assets as of that date and shall include the proceeds from the bonds issued pursuant to the Pension Bond Financing Act of 1997, P.L. , c. (now pending before the Legislature as), paid to the system by the New Jersey Economic Development Authority to fund the unfunded accrued liability of the system.

"Excess valuation assets" means the valuation assets for a valuation period less the actuarial accrued liability for the valuation period, if the sum is greater than zero. If there are excess valuation assets for the valuation period ending June 30, 1996, the normal contributions for the valuation periods ending June 30, 1996 and June 30, 1997 which have not yet been paid to the retirement system shall be reduced to the extent possible by the excess valuation assets, provided that the General Fund balances that would have been paid to the retirement system except for this provision shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke. If there are excess valuation assets for a valuation period ending after June 30, 1996, the State Treasurer may reduce the normal contribution payable for the next valuation period as follows:

(1) for valuation periods ending June 30, 1997 through June 30, 2001, to the extent possible by up to 100% of the excess valuation assets;

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

(3) for the valuation period ending June 30, 2003, to the extent possible by up to 68% of the excess valuation assets; and

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

c. The actuary shall certify annually the aggregate amount payable to the Contingent Reserve Fund in the ensuing year, which amount shall be equal to the sum of the amounts described in this section. The State shall pay into the Contingent Reserve Fund during the ensuing year the amount so certified. In the event the amount certified to be paid by the State includes amounts due for services rendered by members to specific instrumentalities or authorities the total amounts so certified shall be paid to the retirement system by the State; provided, however, the full cost attributable to such services rendered to such instrumentalities and authorities shall be computed separately by the actuary and the State shall be reimbursed for such amounts by such instrumentalities or authorities.

The cash death benefits, payable as the result of contribution by the State under the provisions of this act upon the death of a member in active service and after retirement shall be paid from the Contingent Reserve Fund.

(cf: P.L.1994, c.62, s.13)

10. This act shall take effect immediately.

STATEMENT

This bill changes the value of the assets of the retirement systems to "full-market" value of assets, for the State and participating local governments, as of the valuation reports applicable to FY1998. This one-time accounting change from the current "market-related" value of assets (20 percent of full-market) to "full-market" immediately recognizes recent capital gains instead of recognizing those gains over five years, resulting in an increased value of the accumulated assets. For valuation reports applicable to FY 1999 and thereafter, the actuarial value of assets will revert to "market-related" value of assets.

The bill authorizes the State Treasurer to reduce the "normal contributions" of State and local employers to the systems, to the extent possible, from up to 100 percent of excess assets through FY2002, and on a declining maximum percentage of excess thereafter. In addition, the bill permits the State to pay its unfunded accrued liabilities under the various pension systems from any source of funds, including the proceeds of pension obligation bonds (POBs) to be issued by the New Jersey Economic Development Authority (EDA).

The bill provides that in the case of any General Fund savings resulting from any excess assets allocated to the State in the various retirement systems for the valuation period ending in March or June 1996 (or June 1995 with respect to the Police and Firemen's Retirement System), the General Fund balances that would have been paid to the retirement systems for normal contributions shall first be allocated as State aid to public schools to the extent that additional sums are required to comply with the May 14, 1997 decision of the New Jersey Supreme Court in Abbott v. Burke.

The bill also provides for a reduction from excess assets, during calendar years 1998 and 1999, of the contributions by employees of the State and local employers representing 1/2 of 1% of the salaries of employees, and for a similar reduction in contributions thereafter under certain circumstances.

Revises funding provisions applicable to State retirement systems.

FISCAL NOTE TO

SENATE, No. 2148

STATE OF NEW JERSEY

DATED: JUNE 26, 1997

Senate Bill No. 2148 of 1997 and its companion bill, S-1905 (1R), change the manner by which the State finances its pension obligations. S-2148 changes the value of the assets of the retirement systems to "full-market" value of assets for the State and participating local government employers as of the actuarial valuation reports applicable to FY 1998. This one-time accounting change from the current "market-related" value of assets (20 percent of full-market) to "full-market" value immediately recognizes recent capital gains instead of recognizing those gains over five years, resulting in an increased value of the accumulated assets. For valuation reports applicable to FY 1999 and thereafter, the actuarial value of assets will revert to "market-related" value of assets. S-2148 authorizes the State and local employers to reduce their annual "normal contributions" to the systems, to the extent possible, by up to 100 percent of the value of excess assets through FY 2002, and on a declining percentage of excess assets thereafter. In addition, S-2148 permits the State to pay its unfunded accrued liabilities under the various pension systems from any source of funds, including the proceeds of pension obligation bonds (POBs) to be issued by the EDA.

S-1905 (1R), entitled the "Pension Bond Financing Act of 1997", authorizes the New Jersey Economic Development Authority (EDA) to issue State-backed appropriation bonds to fund, in full or in part, the unfunded accrued pension liability of the State in each State pension fund, as such liabilities were certified by the valuation reports applicable for FY 1998.

S-1905 (1R) also provides for a reduction, during the calendar years 1998 and 1999, in the contribution rate of State and local government employees of 1/2 of 1 percent of salary and for a similar reduction in employee contributions in the future if the State Treasurer determines that excess assets shall be used to reduce the employers' (State and local governments) normal contributions beyond FY 1998.

These bills are identical to A-3047 and A-3049.

Administration Comments

The Department of Treasury has distributed a number of documents and graphic displays which explain the financial, actuarial and budgetary impacts of this legislation. These may be briefly summarized as follows:

A. The unfunded accrued liability of the State pension systems is $3.2 billion. In addition, there is a $1.0 billion projected future liability for cost-of-living adjustment (COLA) benefits payable to active employees.

B. Under the provisions of S-1905 (1R), the EDA would issue at least $2.75 billion in POBs to "refinance" most of the $3.2 billion liability of the State retirement systems. The $2.75 billion in bond proceeds would be deposited in the various pension funds. The principal and interest (debt service) on the proposed $2.75 billion POB issuance are estimated to total $12.6 billion, if the bonds are repaid with interest over 36 years. Refinancing the liability is estimated to result in savings of $42 billion to taxpayers in the years 2034 through 2056.

C. The debt service interest rate on the $2.75 billion in POBs is estimated to average 8.07 percent over the 36-year amortization period. Under current law, the opportunity cost of not having the $3.2 billion (amount of the liability) invested in the capital markets is assumed to be 8.75 percent per year.

D. The repayment schedule for the $2.75 billion in POBs is to be structured in a manner wherein the annual debt service on the POBs would "mirror" the annual State contributions that are to be provided to fund the retirement systems under current law, but with several important differences:

Specifically, for FY 1998, the debt service will equal the amount that would have been required to be applied in FY 1998 to finance the unfunded accrued liabilities of the retirement systems under current law ($90.8 million);

For fiscal years 1999 through 2004, inclusive, the debt service shall at least equal the current unfunded accrued liability payments, plus an additional $25 million each year;

For fiscal years 2005 through 2020, inclusive, the debt service shall at least equal the current unfunded accrued liability payments;

For fiscal years 2021 through 2035 (or whenever the last bonds are retired), the debt service shall be leveled off so that payments at least equal the unfunded accrued liability payment scheduled for FY 2020, but are not more than the unfunded accrued liability payment for FY 2021, as determined under current law.

E. An estimated $450 million of the $2.4 billion in "surplus assets" created by the change to "full-market" value of assets under S2148 will be used to pay the portion of the $3.2 billion liability not funded with the proceeds of the POBs ($3.2 billion - $2.75 billion = $450 million).

F. $1.0 billion of the $2.4 billion in "surplus assets" will be used to pay the $1.0 billion projected future liability for cost-of-living adjustment (COLA) benefits payable to active employees.

G. An estimated $589 million of the "surplus assets" would be applied to reduce the normal State contributions to fund the retirement systems in FY 1997 and FY 1998. (This amount was originally calculated to be $647 million.)

H. The one-time accounting change to "full-market" value of assets will reduce the annual pension contributions of local government employers that participate in the Public Employees' Retirement System and the Police and Firemen's Retirement System in FY 1998 and may serve to reduce them in future years. However, local employers are not participants in the issuance of POBs authorized by these bills.

OLS Comments

A. As noted, the unfunded accrued liability of the State retirement systems is calculated by the administration to be $3.213 billion. At the same time, however, two of the systems, the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) are retaining $543 million in "basic benefits surplus" assets that are not being considered in calculating the unfunded accrued liability and therefore sizing the proposed bond issue. The Administration deducts $204 million in assets from the TPAF and $339 million in assets from the PERS to arrive at the $3.2 billion figure. There is no convincing actuarial or accounting rule which would prevent this $543 million from being considered as an offset to the $3.2 billion unfunded liability.

S-1905 (1R) limits the amount of bonds that may be issued by the EDA to an amount that will yield $2.75 billion in bond proceeds to refinance the liability of the retirement systems, plus an estimated $15 million for the cost of issuing the bonds. The bill also establishes a maximum 38-year amortization period.

The Administration has indicated an intention to repay the bonds over 36 years at an estimated debt service cost of $12.6 billion.

The Administration could establish a longer or shorter amortization schedule. If the amortization period exceeds the Administration's 36-year proposal, the debt service on bonds will increase and the savings to future taxpayers will decrease. If the POBs are retired under an amortization schedule less than 36 years, the debt service on the bonds will decrease and the savings to future taxpayers would increase.

The present value, in 1997 dollars, of the $42 billion in future savings to taxpayers in 2034 through 2056 is $701 million when the assumed rate of return (8.75 percent) on pension investments is used.

B. The Administration's estimates were based on an average interest rate of 8.07 percent. The actual rate will be determined based on market conditions at the time the bonds are issued. Interest rates, which have fluctuated considerably, have increased slightly since the Administration's original estimates. A continuation of this recent trend could affect the average rate payable on the POBs and ultimately the value of the anticipated future savings.

The POBs would be limited obligations of the EDA. Although the principal and interest on the bonds will be paid through annual State appropriations from the General Fund, the bonds will not be "full faith and credit" obligations (debt) of the State, which would require approval in a public referendum. The POBs must contain a statement to that effect. Because the bonds are not issued directly by the State, and are not backed by its full faith and credit, but rather a promise to appropriate the annual debt service, the POBs are considered a somewhat greater credit risk than General Obligation (G.O.) bonds. According to Standard & Poor's Corp., a credit rating agency, the credit premium on POBs could be as much as 33 basis points (.33 percent) higher than G.O. bonds. The cost differential of financing $2.765 billion for G.O. bonds versus appropriation bonds may total approximately $285 million dollars.

The State Treasurer has indicated that a portion of the bond issuance may be insured. Such insurance would reduce the credit risk of appropriation bonds, resulting in a lower interest rate payable on the bonds. Any savings would be dependent on the cost of purchasing insurance.

If the State were to wait until after a November referendum to issue the debt, the State risks more uncertainty (interest rate fluctuations) in the bond market.

C. As noted previously, the debt service on the $2.75 billion POB issuance is structured to be similar, although not identical, to the annual State contributions that are now scheduled to be made between 1998 and the year 2034 to fund the retirement systems under current law. This payment schedule starts out with very low annual payments that rise steeply over time before leveling out in 2021.

Other amortization schedules that would require higher annual payments in early years result in significant total debt service savings over the life of the POBs. For instance, a level amortization schedule for the proposed $2.765 billion issuance would cost approximately $8.6 billion compared to the $12.6 billion currently proposed. In this example, a level amortization of $237.7 million per year would require the State to contribute an additional $1.0 billion toward debt service over the first thirteen years (the first-year difference in FY 1998 would be $146.9 million); however, after the "crossover point" in FY 2010, level debt payments would be $5.0 billion lower through the remaining years of repayment.

D. If S-2148 and S-1905 (1R) are enacted, the Administration estimates the pension funds will have $2.4 billion in "surplus assets". Approximately $1.9 billion represents the difference between the actuarial value of assets and the full-market value of assets. The remaining amounts, approximately $543 million, consists of assets currently recognized by the TPAF and PERS retirement systems as surplus assets (basic benefits surplus). To the extent there are "surplus assets" (assets in excess of liabilities) the State is, in effect, borrowing more than the amount necessary to fully fund the retirement systems. Although it is hoped that the proceeds of the bond sale will be invested and will earn more than the cost of their replacement, there is always a risk or uncertainty in borrowing money.

E. The State and local employers can only use "surplus assets" to offset the normal pension contributions if the retirement systems are fully funded and there are no unfunded accrued liabilities.

G. Normal pension contributions are defined by the Administration to include the cost of funding basic pension benefits, COLAs and group life insurance benefits but not the pay-as-you-go cost of funding post-retirement medical benefits.

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