

18A:66-18

**LEGISLATIVE HISTORY CHECKLIST**  
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(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:

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COMMITTEE STATEMENT: ASSEMBLY: No  
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P.L. 1997, CHAPTER 115, *approved June 5, 1997*  
Senate, No. 2148

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

3  
4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6  
7 1. N.J.S.18A:66-18 is amended to read as follows:

8 18A:66-18. The contingent reserve fund shall be the fund in which  
9 shall be credited contributions made by the State and other employers.

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

18 b. Upon the basis of the tables recommended by the actuary which  
19 the board of trustees adopts and regular interest, the actuary of the  
20 board shall **[compute the]** annually determine if there is an amount of  
21 the accrued liability of the retirement system **[as of March 31, 1992]**  
22 , computed under the projected unit credit method, **[excluding]**  
23 including the liability for pension adjustment benefits for active  
24 employees funded pursuant to section 2 of P.L.1987, c.385  
25 (C.18A:66-18.1), which is not already covered by the assets of the  
26 retirement system, valued in accordance with the asset valuation  
27 method established in this section. **[Using]** This shall be known as the  
28 "unfunded accrued liability." If there was no unfunded accrued  
29 liability for the valuation period immediately preceding the current  
30 valuation period, the actuary, using the total amount of this unfunded  
31 accrued liability, **[the actuary]** shall compute the initial amount of  
32 contribution which, if the contribution is increased at a specific rate  
33 and paid annually for a specific period of time, will amortize this  
34 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.**

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

23 The value of the assets to be used in the computation of the  
24 contributions provided for under this section for valuation periods  
25 shall be the value of the assets for the preceding valuation period  
26 increased by the regular interest rate, plus the net cash flow for the  
27 valuation period (the difference between the benefits and expenses  
28 paid by the system and the contributions to the system) increased by  
29 one half of the regular interest rate, plus 20% of the difference  
30 between this expected value and the full market value of the assets as  
31 of the end of the valuation period. This shall be known as the  
32 "valuation assets." Notwithstanding the first sentence of this  
33 paragraph, the valuation assets for the valuation period ending March  
34 31, 1996 shall be the full market value of the assets as of that date and  
35 shall include the proceeds from the bonds issued pursuant to the  
36 Pension Bond Financing Act of 1997, P.L. , c. (now pending before  
37 the Legislature as ), paid to the system by the New Jersey  
38 Economic Development Authority to fund the unfunded accrued  
39 liability of the system.

40 "Excess valuation assets" for a valuation period means:

- 41 (1) the valuation assets; less
- 42 (2) the actuarial accrued liability for basic benefits and pension  
43 adjustment benefits, excluding the unfunded accrued liability for early  
44 retirement incentive benefits pursuant to P.L.1991, c.231 and  
45 P.L.1993, c.163 for employers other than the State; less
- 46 (3) the contributory group insurance premium fund created by

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

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

5 (5) the present value of the projected total normal cost for pension  
6 adjustment benefits in excess of the projected total phased-in normal  
7 cost for pension adjustment benefits as originally authorized by section  
8 2 of P.L.1987, c.385 (C.18A:66-18.1) over the full phase-in period,  
9 determined in the manner prescribed for the determination and  
10 amortization of the unfunded accrued liability of the system, if the sum  
11 of the foregoing items is greater than zero.

12 If there are excess valuation assets for the valuation period ending  
13 March 31, 1996, the normal contributions for the valuation periods  
14 ending March 31, 1996 and March 31, 1997 which have not yet been  
15 paid to the retirement system shall be reduced to the extent possible  
16 by the excess valuation assets, provided that the General Fund  
17 balances that would have been paid to the retirement system except for  
18 this provision shall first be allocated as State aid to public schools to  
19 the extent that additional sums are required to comply with the May  
20 14, 1997 decision of the New Jersey Supreme Court in Abbott v.  
21 Burke, and provided further that the normal contribution for the  
22 valuation period ending March 31, 1996 shall not be less than  
23 \$54,000,000. If there are excess valuation assets for a valuation  
24 period ending after March 31, 1996, the State Treasurer may reduce  
25 the normal contribution payable for the next valuation period as  
26 follows:

27 (1) for valuation periods ending March 31, 1997 through March  
28 31, 2001, to the extent possible by up to 100% of the excess valuation  
29 assets;

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

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

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

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

1 reduction in the normal contribution shall be available for the further  
2 reduction of normal contributions, subject to the limitations prescribed  
3 by this subsection.

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

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

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

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

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

18

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

21 2. Pension adjustment benefits for members and beneficiaries of the  
22 Teachers' Pension and Annuity Fund as provided by the "Pension  
23 Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) shall be paid by  
24 the retirement system and shall be funded as employer obligations by  
25 the same method provided by law for the funding of employer  
26 obligations for the basic retirement benefits provided by the retirement  
27 system. [Normal and accrued liability contributions for pension  
28 adjustment benefits for active employees shall be determined for the  
29 1992 valuation year and shall be phased in so that the level of  
30 recognition of the full normal and accrued liability contributions shall  
31 be 20% for valuation year 1992 and 23.33% for valuation year 1993,  
32 and shall be increased by 2.33% for each valuation year thereafter until  
33 the full normal and accrued liability contributions are fully  
34 recognized.]

35 Health care benefits for qualified retirees and their dependents as  
36 provided by section 3 of P.L.1987, c.384 (C.52:14-17.32f) shall be  
37 funded and paid by the retirement system through a separate fund or  
38 trust of the retirement system in accordance with the requirements of  
39 the federal Internal Revenue Code. Beginning with the actuarial  
40 valuation period ending March 31, 1994, the actuary of the retirement  
41 system shall annually compute a contribution to fund these health care  
42 benefits which shall be the amount necessary to pay the anticipated  
43 premiums or periodic charges for the benefits for the following  
44 valuation period and to provide that the balance in the fund as of the  
45 end of the following valuation period shall be increased by 1/2 of 1%  
46 of the salary of the active members for the valuation period. If the

1 assets in the fund are insufficient to pay the premiums or periodic  
2 charges for the benefits, they shall be paid directly by the State.  
3 (cf: P.L.1994, c.62, s.3)

4

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

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

15 b. Upon the basis of the tables recommended by the actuary which  
16 the commission adopts and regular interest, the actuary shall [compute  
17 the] annually determine if there is an amount of the accrued liability of  
18 the retirement system [as of June 30, 1992], computed under the  
19 projected unit credit method, which is not already covered by the  
20 assets of the retirement system, valued in accordance with the asset  
21 valuation method established in this section. [Using] This shall be  
22 known as the "unfunded accrued liability." If there was no unfunded  
23 accrued liability for the valuation period immediately preceding the  
24 current valuation period, the actuary, using the total amount of this  
25 unfunded accrued liability, [the actuary] shall compute the initial  
26 amount of contribution which, if the contribution is increased at a  
27 specific rate and paid annually for a specific period of time, will  
28 amortize this liability. The State Treasurer shall determine, upon the  
29 advice of the Director of the Division of Pensions and Benefits, the  
30 commission and the actuary, the rate of increase for the contribution  
31 and the time period for full funding of this liability, which shall not  
32 exceed [40] 30 years [on initial application of this section as amended  
33 by this act, P.L.1994, c.62]. This shall be known as the "accrued  
34 liability contribution." [Any increase or decrease in the unfunded  
35 accrued liability as a result of actuarial losses or gains for the 10  
36 valuation years following valuation year 1992 shall serve to increase  
37 or decrease, respectively, the unfunded accrued liability contribution.]  
38 Thereafter, any increase or decrease in the unfunded accrued liability  
39 as a result of actuarial losses or gains for subsequent valuation years  
40 shall serve to increase or decrease, respectively, the amortization  
41 period for the unfunded accrued liability, unless an increase in the  
42 amortization period will cause it to exceed 30 years. If an increase in  
43 the amortization period as a result of actuarial losses for a valuation  
44 year would exceed 30 years, the accrued liability contribution shall be  
45 computed for the valuation year in the same manner provided for the  
46 computation of the initial accrued liability contribution under this

1 section. The State may pay all or any portion of its unfunded accrued  
2 liability under the retirement system from any source of funds legally  
3 available for the purpose, including, without limitation, the proceeds  
4 of bonds authorized by law for this purpose.

5 The value of the assets to be used in the computation of the  
6 contributions provided for under this section for valuation periods  
7 shall be the value of the assets for the preceding valuation period  
8 increased by the regular interest rate, plus the net cash flow for the  
9 valuation period (the difference between the benefits and expenses  
10 paid by the system and the contributions to the system) increased by  
11 one half of the regular interest rate, plus 20% of the difference  
12 between this expected value and the full market value of the assets as  
13 of the end of the valuation period. This shall be known as the  
14 "valuation assets." Notwithstanding the first sentence of this  
15 paragraph, the valuation assets for the valuation period ending June  
16 30, 1996 shall be the full market value of the assets as of that date and  
17 shall include the proceeds from the bonds issued pursuant to the  
18 Pension Bond Financing Act of 1997, P.L. , c. (now pending before  
19 the Legislature as ), paid to the system by the New Jersey  
20 Economic Development Authority to fund the unfunded accrued  
21 liability of the system.

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

37 (1) for valuation periods ending June 30, 1997 through June 30,  
38 2001, to the extent possible by up to 100% of the excess valuation  
39 assets;

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

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

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

46 c. The actuary shall certify annually the aggregate amount payable

1 to the contingent reserve fund in the ensuing year, which amount shall  
2 be equal to the sum of the amounts described in this section. The  
3 State shall pay into the contingent reserve fund during the ensuing year  
4 the amount so determined.

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

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

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

11

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

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

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

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

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

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

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

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

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

39

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

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

44 a. Upon the basis of the tables recommended by the actuary which  
45 the board adopts and regular interest, the actuary shall compute  
46 annually, beginning as of March 31, 1992, the amount of contribution



1 which shall be the normal cost as computed under the projected unit  
2 credit method attributable to service rendered under the retirement  
3 system for the year beginning on July 1 immediately succeeding the  
4 date of the computation. This shall be known as the "normal  
5 contribution."

6 b. [Upon] With respect to employers other than the State, upon  
7 the basis of the tables recommended by the actuary which the board  
8 adopts and regular interest, the actuary shall compute the amount of  
9 the accrued liability of the retirement system as of March 31, 1992  
10 under the projected unit credit method, excluding the liability for  
11 pension adjustment benefits for active employees funded pursuant to  
12 section 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already  
13 covered by the assets of the retirement system, valued in accordance  
14 with the asset valuation method established in this section. Using the  
15 total amount of this unfunded accrued liability, the actuary shall  
16 compute the initial amount of contribution which, if the contribution  
17 is increased at a specific rate and paid annually for a specific period of  
18 time, will amortize this liability. The State Treasurer shall determine,  
19 upon the advice of the Director of the Division of Pensions and  
20 Benefits, the board of trustees and the actuary, the rate of increase for  
21 the contribution and the time period for full funding of this liability,  
22 which shall not exceed 40 years on initial application of this section as  
23 amended by this act, P.L.1994, c.62. This shall be known as the  
24 "accrued liability contribution." Any increase or decrease in the  
25 unfunded accrued liability as a result of actuarial losses or gains for the  
26 10 valuation years following valuation year 1992 shall serve to  
27 increase or decrease, respectively, the unfunded accrued liability  
28 contribution. Thereafter, any increase or decrease in the unfunded  
29 accrued liability as a result of actuarial losses or gains for subsequent  
30 valuation years shall serve to increase or decrease, respectively, the  
31 amortization period for the unfunded accrued liability, unless an  
32 increase in the amortization period will cause it to exceed 30 years.  
33 If an increase in the amortization period as a result of actuarial losses  
34 for a valuation year would exceed 30 years, the accrued liability  
35 contribution shall be computed for the valuation year in the same  
36 manner provided for the computation of the initial accrued liability  
37 contribution under this section.

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

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

23 The value of the assets to be used in the computation of the  
24 contributions provided for under this section for valuation periods  
25 shall be the value of the assets for the preceding valuation period  
26 increased by the regular interest rate, plus the net cash flow for the  
27 valuation period (the difference between the benefits and expenses  
28 paid by the system and the contributions to the system) increased by  
29 one half of the regular interest rate, plus 20% of the difference  
30 between this expected value and the full market value of the assets as  
31 of the end of the valuation period. This shall be known as the  
32 "valuation assets." Notwithstanding the first sentence of this  
33 paragraph, the valuation assets for the valuation period ending March  
34 31, 1996 shall be the full market value of the assets as of that date and  
35 , with respect to the valuation assets allocated to the State, shall  
36 include the proceeds from the bonds issued pursuant to the Pension  
37 Bond Financing Act of 1997, P.L. , c. (now pending before the  
38 Legislature as ), paid to the system by the New Jersey Economic  
39 Development Authority to fund the unfunded accrued liability of the  
40 system.

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

- 43 (1) the valuation assets allocated to the State; less
- 44 (2) the actuarial accrued liability of the State for basic benefits and  
45 pension adjustment benefits under the retirement system; less
- 46 (3) the contributory group insurance premium fund, created by

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

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

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

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

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

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

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

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

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

1 the next valuation period as follows:

2 (1) for valuation periods ending March 31, 1997 through March  
3 31, 2001, to the extent possible by up to 100% of the excess valuation  
4 assets allocated to the State or to the other employers, respectively;

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

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

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

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

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

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

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

42

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

45 2. Pension adjustment benefits for members and beneficiaries of the  
46 Public Employees' Retirement System provided by the "Pension

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

13 Health care benefits for retired State employees and their  
14 dependents for which the State is required to pay the premiums or  
15 periodic charges under the "New Jersey State Health Benefits Program  
16 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be funded and paid  
17 by the retirement system through a separate fund or trust of the  
18 retirement system in accordance with the requirements of the federal  
19 Internal Revenue Code. Beginning with the actuarial valuation period  
20 ending March 31, 1994, the actuary of the retirement system shall  
21 annually compute a contribution to fund these health care benefits  
22 which shall be the amount necessary to pay the anticipated premiums  
23 or periodic charges for the benefits for the following valuation period  
24 and to provide that the balance in the fund as of the end of the  
25 following valuation period shall be increased by 1/2 of 1% of the  
26 salary of the active members for the valuation period. If the assets in  
27 the fund are insufficient to pay the premiums or periodic charges for  
28 the benefits, they shall be paid directly by the State.

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

30

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

32 43:16-5. For the purpose of paying the pensions provided by this  
33 chapter, all pension funds heretofore created and in existence pursuant  
34 to the provisions of an act entitled "An act providing for the retirement  
35 of policemen and firemen of the police and fire departments in  
36 municipalities of this State, including all police officers having  
37 supervision of regulation of traffic upon county roads, and providing  
38 a pension for such retired policemen and firemen and members of the  
39 police and fire departments, and the widows, children and sole  
40 dependent parents of deceased members of said departments,"  
41 approved April 15, 1920 (P.L.1920, c.160), and chapter 16 of Title 43  
42 of the Revised Statutes, shall, from and after July 1, 1953, be  
43 consolidated, and, as so consolidated, shall be transferred to and  
44 placed under the Consolidated Police and Firemen's Pension Fund  
45 created by the provisions of this chapter. All rights and privileges  
46 created and extended to members of a municipal police department or

1 of a paid or part-paid fire department or of a county police  
2 department, including members of the paid or part-paid fire  
3 department of any fire district located in any township which has  
4 adopted said act or said chapter of the Revised Statutes are hereby  
5 expressly preserved, continued and transferred from said pension funds  
6 to said consolidated fund. Nothing herein contained shall be deemed  
7 to affect or impair the right of any beneficiary of any of the funds so  
8 created, but all rights of such beneficiaries which have accrued or may  
9 accrue in or against any such pension fund shall be deemed to have  
10 accrued or to accrue against the funds so consolidated. Said  
11 consolidated fund shall be maintained as follows:

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

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

20 (1) An amount equal to 6% of the total of salaries annually paid to  
21 the members of the consolidated fund under said employer's  
22 jurisdiction, which shall be known as the employer's normal  
23 contribution, and which shall be paid into said fund no later than April  
24 1 of the State's fiscal year in which payment is due.

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

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

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

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

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

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

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

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

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

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

30 (h) Upon the basis of tables recommended by the actuary which the  
31 commission adopts after consultation with the Director of the Division  
32 of Pensions and Benefits, the actuary shall compute the amount of  
33 unfunded liability of the fund as of June 30, 1990 which is not already  
34 covered by the assets of the fund, valued in accordance with the asset  
35 valuation method established in this section, and prospective employer  
36 normal contributions and employee contributions. Using the total  
37 amount of this unfunded liability, the actuary shall compute the  
38 amount of the flat annual payment which, if paid in each succeeding  
39 fiscal year, commencing with July 1, 1991, for a period of nine years,  
40 will provide for this liability. This payment shall be increased or  
41 decreased in succeeding fiscal years to amortize any actuarial loss or  
42 gain over the remaining time in this nine-year period. Any unfunded  
43 liability remaining after this nine-year period shall be funded by direct  
44 State appropriations. The actuary shall annually certify over the  
45 nine-year period the amount payable to the fund in the ensuing year,  
46 and the State shall pay into the fund during the ensuing year the

1 amount so certified. The State may pay all or any portion of its  
2 unfunded accrued liability under the retirement system from any source  
3 of funds legally available for the purpose, including, without limitation,  
4 the proceeds of bonds authorized by law for this purpose.

5 [The value of the assets for the valuation period ending June 30,  
6 1990 shall be the full market value of the assets as of that date. The  
7 value of the assets for the valuation period ending June 30, 1991 shall  
8 be the value of the assets for the preceding valuation period increased  
9 by 8 3/4%, plus the net cash flow for the valuation period (the  
10 difference between the benefits paid by the system and the  
11 contributions to the system) increased by 4 3/8%, plus 20% of the  
12 difference between this expected value and the full market value of the  
13 assets as of June 30, 1991.] The value of the assets for the valuation  
14 periods ending on or after June 30, 1992 shall be the value of the  
15 assets for the preceding valuation period increased by the regular  
16 interest rate, plus the net cash flow for the valuation period (the  
17 difference between the benefits paid by the system and the  
18 contributions to the system) increased by one half of the regular  
19 interest rate, plus 20% of the difference between this expected value  
20 and the full market value of the assets as of the end of the valuation  
21 period.

22 The tables of actuarial assumptions previously adopted by the  
23 commission for the valuation periods ending June 30, 1990 and June  
24 30, 1991 shall be applicable to the revaluations of the retirement  
25 system under P.L.1992, c.125 (C.43:4B-1 et al.).

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

27  
28 8. Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended to  
29 read as follows:

30 15. (1) The contributions required for the support of the  
31 retirement system shall be made by members and their employers.

32 (2) The uniform percentage contribution rate for members shall be  
33 8.5% of compensation.

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

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

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

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

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



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

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

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

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

31     The value of the assets to be used in the computation of the  
32 contributions provided for under this section for valuation periods  
33 shall be the value of the assets for the preceding valuation period  
34 increased by the regular interest rate, plus the net cash flow for the  
35 valuation period (the difference between the benefits and expenses  
36 paid by the system and the contributions to the system) increased by  
37 one half of the regular interest rate, plus 20% of the difference  
38 between this expected value and the full market value of the assets as  
39 of the end of the valuation period. This shall be known as the  
40 "valuation assets." Notwithstanding the first sentence of this  
41 paragraph, the valuation assets for the valuation period ending June  
42 30, 1995 shall be the full market value of the assets as of that date  
43 and , with respect to the valuation assets allocated to the State, shall  
44 include the proceeds from the bonds issued pursuant to the Pension  
45 Bond Financing Act of 1997, P.L. , c. (now pending before the  
46 Legislature as ), paid to the system by the New Jersey Economic

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

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

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

30 (1) for valuation periods ending June 30, 1996 through June 30,  
31 2000, to the extent possible by up to 100% of the excess valuation  
32 assets allocated to the State or to the other employers, respectively;

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

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

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

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

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

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

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

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

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

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

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

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

40  
41 9. Section 34 of P.L.1965, c.89 (C.53:5A-34) is amended to read  
42 as follows:

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

45 a. Upon the basis of the tables recommended by the actuary which  
46 the board adopts and regular interest, the actuary shall compute

1 annually, beginning as of June 30, 1992, the amount of the  
2 contribution which shall be the normal cost as computed under the  
3 projected unit credit method attributable to service rendered under the  
4 retirement system for the year beginning on July 1 immediately  
5 succeeding the date of the computation. This shall be known as the  
6 "normal contribution."

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

43 The value of the assets to be used in the computation of the  
44 contributions provided for under this section for valuation periods  
45 shall be the value of the assets for the preceding valuation period  
46 increased by the regular interest rate, plus the net cash flow for the

1 valuation period (the difference between the benefits and expenses  
2 paid by the system and the contributions to the system) increased by  
3 one half of the regular interest rate, plus 20% of the difference  
4 between this expected value and the full market value of the assets as  
5 of the end of the valuation period. This shall be known as the  
6 "valuation assets." Notwithstanding the first sentence of this  
7 paragraph, the valuation assets for the valuation period ending June  
8 30, 1996 shall be the full market value of the assets as of that date and  
9 shall include the proceeds from the bonds issued pursuant to the  
10 Pension Bond Financing Act of 1997, P.L. , c. (now pending  
11 before the Legislature as ), paid to the system by the New Jersey  
12 Economic Development Authority to fund the unfunded accrued  
13 liability of the system.

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

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

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

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

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

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

1 to such instrumentalities and authorities shall be computed separately  
2 by the actuary and the State shall be reimbursed for such amounts by  
3 such instrumentalities or authorities.

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

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

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10 10. This act shall take effect immediately.

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### STATEMENT

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

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

32 The bill provides that in the case of any General Fund savings  
33 resulting from any excess assets allocated to the State in the various  
34 retirement systems for the valuation period ending in March or June  
35 1996 (or June 1995 with respect to the Police and Firemen's  
36 Retirement System), the General Fund balances that would have been  
37 paid to the retirement systems for normal contributions shall first be  
38 allocated as State aid to public schools to the extent that additional  
39 sums are required to comply with the May 14, 1997 decision of the  
40 New Jersey Supreme Court in *Abbott v. Burke*.

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

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- 1
- 2 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.