

18A:66-18.1

**LEGISLATIVE HISTORY CHECKLIST**  
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(State pension laws--revision)

**NJSA:** 18A:66-18.1 et al

**LAWS OF:** 1994 **CHAPTER:** 62

**BILL NO:** S1263

**SPONSOR(S):** Inverso & DiFrancesco

**DATE INTRODUCED:** June 20, 1994

**COMMITTEE:** **ASSEMBLY** ---  
**SENATE:** Budget

**AMENDED DURING PASSAGE:** Yes Amendments during passage  
First reprint enacted denoted by superscript numbers

**DATE OF PASSAGE:** **ASSEMBLY:** June 29, 1994  
**SENATE:** June 27, 1994

**DATE OF APPROVAL:** June 30, 1994

**FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:**

**SPONSOR STATEMENT:** Yes

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

**FISCAL NOTE:** No

**VETO MESSAGE:** No

**MESSAGE ON SIGNING:** No

**FOLLOWING WERE PRINTED:**

**REPORTS:** No

**HEARINGS:** Yes

Recommendations by Governor Whitman--attached:  
974.90 New Jersey. Office of the Governor.  
G53.3 Budget in brief...March 15, 1994.  
[pp. 15-19]

974.90 New Jersey. Legislature. Senate. State Management Investments  
P418 & Financial Institutions Committee.  
1994 Committee meeting on testimony concerning the governor's  
public employee pension & health benefits financing reform  
proposals. May 19, 1994. Trenton, 1994.

KBG:pp

[FIRST REPRINT]

SENATE, No. 1263

STATE OF NEW JERSEY

INTRODUCED JUNE 20, 1994

By Senators INVERSO and DiFRANCESCO

1 AN ACT concerning the State-administered retirement systems,  
2 revising various parts of the statutory law, and repealing  
3 N.J.S.18A:66-67 and section 58 of P.L.1954, c.84 (C.43:15A-58).

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

7 1. (New section) In order to ensure the continued State  
8 funding of the public pension systems at levels related to the  
9 fiscal and financial soundness of those systems and in order to  
10 ensure the fiscal and financial integrity of the public pension  
11 systems, the Legislature finds and declares that:

12 a. public pension assets must be managed and administered to  
13 maintain their value and ensure appropriate levels of return on  
14 investment;

15 b. the accumulated assets of the public pension systems and  
16 their economic enhancement exist for the benefit of the retirees  
17 and members of those systems;

18 c. the statutorily-established benefits to which they are  
19 entitled belong to said retirees; and

20 d. no present or future retirees of the Teachers' Pension and  
21 Annuity Fund, the Judicial Retirement System, the Public  
22 Employees' Retirement System, the Police and Firemen's  
23 Retirement System, or the State Police Retirement System shall  
24 receive any reduction in benefits as a result of the provisions of  
25 this act, P.L. , c. (now pending before the Legislature as this  
26 bill).<sup>1</sup>

27 <sup>1</sup>[1.] <sup>2</sup> N.J.S.18A:66-18 is amended to read as follows:

28 18A:66-18. The contingent reserve fund shall be the fund in  
29 which shall be credited contributions made by the State and other  
30 employers.

31 a. Upon the basis of the tables recommended by the actuary  
32 which the board of trustees adopts and regular interest, the  
33 actuary of the board shall compute annually, beginning as of  
34 March 31, 1992, the amount of contribution which shall be the  
35 normal cost as computed under the projected unit credit method  
36 attributable to service rendered under the retirement system for  
37 the year beginning on July 1 immediately succeeding the date of  
38 the computation, expressed as a proportion of the compensation  
39 paid to all members, except veteran members who were employed  
40 as teachers on January 1, 1955, which, if paid monthly during the  
41 entire prospective service of such members, will be sufficient to  
42 provide for the pension reserves required at the time of

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

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

<sup>1</sup> Senate SBA committee amendments adopted June 23, 1994.

1 discontinuance of active service, to cover all pensions to which  
2 they may be entitled or which are payable on their account, and  
3 to provide for the amount of the death and accidental disability  
4 benefits payable on their account, and which amount is not  
5 covered by other contributions to be made as provided in this  
6 section and the funds in hand available for such benefits]. This  
7 shall be known as the "normal contribution." [The actuary shall  
8 redetermine the normal contributions for the retirement system  
9 as of March 31, 1990 and March 31, 1991.]

10 b. Upon the basis of the tables recommended by the actuary  
11 which the board of trustees adopts and regular interest, the  
12 actuary of the board shall compute the amount of the [unfunded]  
13 accrued liability of the retirement system as of [March 31, 1990]  
14 March 31, 1992 under the projected unit credit method, excluding  
15 the liability for pension adjustment benefits [and post-retirement  
16 medical benefits] for active employees funded pursuant to section  
17 2 of P.L.1987, c.385 (C.18A:66-18.1), which is not already  
18 covered by the assets of the retirement system, valued in  
19 accordance with the asset valuation method established in this  
20 section[, prospective employer normal contributions and  
21 employee contributions]. Using the total amount of this unfunded  
22 accrued liability, the actuary shall [determine a rate of  
23 contribution that shall be an] compute the initial amount of  
24 contribution [divided by the compensation of all active members  
25 for the valuation period where] which, if the contribution is  
26 increased at a specific rate and paid annually for a specific  
27 period of time, [it] will amortize this liability. The State  
28 Treasurer shall determine, upon the advice of the Director of the  
29 Division of Pensions and Benefits, the board of trustees and the  
30 actuary, the rate of increase for the contribution and the time  
31 period for full funding of this liability, which shall not exceed 40  
32 years <sup>1</sup>on initial application of this section as amended by this  
33 act, P.L. , c. (now pending before the Legislature as this  
34 bill)<sup>1</sup>. [This shall be known as the "accrued liability contribution  
35 rate." The actuary shall compute annually an amount of  
36 contribution based upon the total compensation of all members in  
37 active service and the accrued liability contribution rate.] This  
38 shall be known as the "accrued liability contribution." Any  
39 <sup>1</sup>increase or decrease in the unfunded accrued liability as a result  
40 of actuarial losses or gains for the 10 valuation years following  
41 valuation year 1992 shall serve to increase or decrease,  
42 respectively, the unfunded accrued liability contribution.  
43 Thereafter, any<sup>1</sup> increase or decrease in the unfunded accrued  
44 liability as a result of actuarial <sup>1</sup>[gains or]<sup>1</sup> losses <sup>1</sup>or gains<sup>1</sup> for  
45 subsequent valuation years shall serve to increase or decrease,  
46 respectively, the amortization period for the unfunded accrued  
47 liability, unless an increase in the amortization period will cause  
48 it to exceed <sup>1</sup>[40] 30<sup>1</sup> years. If an increase in the amortization  
49 period as a result of actuarial losses for a valuation year would  
50 exceed <sup>1</sup>[40] 30<sup>1</sup> years, the accrued liability contribution shall be  
51 computed for the valuation year in the same manner provided for  
52 the computation of the initial accrued liability contribution under  
53 this section.

54 [The value of the assets for the valuation period ending

1 March 31, 1990 shall be the full market value of the assets as of  
2 that date. The value of the assets for the valuation period ending  
3 March 31, 1991 shall be the value of the assets for the preceding  
4 valuation period increased by 8 3/4%, plus the net cash flow for  
5 the valuation period (the difference between the benefits paid by  
6 the system and the contributions to the system) increased by 4  
7 3/8%, plus 20% of the difference between this expected value and  
8 the full market value of the assets as of March 31, 1991.] The  
9 value of the assets to be used in the computation of the  
10 contributions provided for under this section for [the] valuation  
11 periods [ending on or after March 31, 1992] shall be the value of  
12 the assets for the preceding valuation period increased by the  
13 regular interest rate, plus the net cash flow for the valuation  
14 period (the difference between the benefits and expenses paid by  
15 the system and the contributions to the system) increased by one  
16 half of the regular interest rate, plus 20% of the difference  
17 between this expected value and the full market value of the  
18 assets as of the end of the valuation period.

19 [The tables of actuarial assumptions previously adopted by the  
20 board of trustees for the valuation periods ending March 31, 1990  
21 and March 31, 1991 shall be applicable to the revaluations of the  
22 retirement system under P.L.1992, c.125 (C.43:4B-1 et al.),  
23 except that the assumptions for salary increases, medical  
24 premium inflation and increases in pension adjustment benefits  
25 shall be those proposed by the actuary to the retirement system  
26 in the draft revision of the annual actuarial reports for the  
27 valuation periods ending March 31, 1990 and March 31, 1991  
28 submitted by the actuary on April 27, 1992.]

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

30 d. The retirement system shall certify annually the aggregate  
31 amount payable to the contingent reserve fund in the ensuing  
32 year, which amount shall be equal to the sum of the amounts  
33 described in this section, and which shall be paid into the  
34 contingent reserve fund in the manner provided by section  
35 18A:66-33.

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

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

43 (cf: P.L.1992, c.125, s.2)

44 <sup>1</sup>[2.] 3.<sup>1</sup> Section 2 of P.L.1987, c.385 (C.18A:66-18.1) is  
45 amended to read as follows:

46 2. Pension adjustment benefits for members and beneficiaries  
47 of the Teachers' Pension and Annuity Fund as provided by the  
48 "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.)  
49 [and health care benefits for qualified retirees and their  
50 dependents as provided by section 3 of P.L.1987, c.384  
51 (C.52:14-17.32f)] shall be paid by the retirement system and shall  
52 be funded as employer obligations [as provided in this section.  
53 Health care benefits for qualified retirees and their dependents  
54 shall be funded and paid through a separate fund or trust of the

1 retirement system in accordance with the requirements of  
2 subsection (h) of section 401 of the federal Internal Revenue  
3 Code (26 U.S.C. §401) or other fund or trust, established under  
4 the jurisdiction of the board of trustees, which shall receive  
5 contributions only to the extent that contributions cannot  
6 otherwise be made to a section 401 (h) trust due to the  
7 requirements of the federal law. Any premium payments for  
8 retired participants shall first be a charge upon such other fund  
9 or trust and only secondarily on the assets set aside under the  
10 section 401(h) trust. The pension adjustment and health care  
11 benefits for qualified retirees shall be funded as employer  
12 obligations] by the same method provided by law for the funding  
13 of employer obligations for the basic retirement benefits  
14 provided by the retirement system. Normal and accrued liability  
15 [contribution rates] contributions for [these benefits] pension  
16 adjustment benefits for active employees shall be determined for  
17 the [1990] 1992 valuation year and shall be phased in so that the  
18 level of recognition of the full normal and accrued liability  
19 [contribution rates] contributions shall be [31.25% for valuation  
20 year 1990, 34.50% for valuation year 1991, and 34.50%] 20% for  
21 valuation year 1992[,] and 23.33% for valuation year 1993, and  
22 [the level of recognition] shall be increased by [6%] 2.33% for  
23 each valuation year thereafter until the full normal and accrued  
24 liability [contribution rates] contributions are fully recognized.  
25 [The board of trustees shall determine the assumed percentage  
26 rate of increase applied to the cost of providing paid health  
27 benefits for retirees.]

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

43 (cf: P.L.1993, c.8, s.1)

44 <sup>1</sup>[3.] <sup>1</sup>4. N.J.S.18A:66-29 is amended to read as follows:

45 18A:66-29. [Any member of the retirement system as of  
46 January 1, 1956, shall pay the proportion of compensation as  
47 provided by section 18A:66-5 applicable to the age at enrollment,  
48 which proportion shall not be increased during the continuation of  
49 membership other than as provided in this section or section  
50 18A:66-67, and shall make any special payments either as lump  
51 sums or as installment payments as required by the board of  
52 trustees as a result of election by the member to obtain  
53 additional service credit. Members enrolling on and after  
54 January 1, 1956 shall contribute at the proportions applicable to

1 class B members of the "public employees' retirement system"  
2 as of January 2, 1955. No member shall be required during the  
3 continuation of his membership to increase the proportion of  
4 compensation certified at the time of becoming a member as  
5 payable by him other than as provided in this section or section  
6 18A:66-67.

7 As of the effective date of this 1979 amendatory and  
8 supplementary act, all members shall contribute, as shall be  
9 determined by the actuary, exclusive of the rate for any  
10 additional death benefit provided under section 18A:66-53, at  
11 proportions of compensation intermediate between the rates  
12 previously applicable to male and to female members, provided  
13 that in order to attain such intermediate point, the adjustment of  
14 such proportions shall be the minimum necessary increase or  
15 decrease in the contributions of members of the fund as such  
16 membership is constituted on the effective date of this act.]

17 Members enrolled in the retirement system on or after July 1,  
18 1994 shall contribute 5% of compensation to the system.  
19 Members enrolled in the system prior to July 1, 1994 shall  
20 contribute 5% of compensation to the system effective with the  
21 payroll period for which the beginning date is closest to July 1,  
22 1995, provided, however, that any member enrolled before July 1,  
23 1994, whose full contribution rate under the system prior to the  
24 revisions by this act was less than 6%, shall pay 4% of  
25 compensation to the system effective with the payroll period for  
26 which the beginning date is closest to July 1, 1995, and 5% of  
27 compensation to the system effective with the payroll period for  
28 which the beginning date is closest to July 1, 1996.

29 (cf: P.L.1979, c.106, s.6.)

30 <sup>1</sup>[4.] 5.<sup>1</sup> Section 33 of P.L.1973, c.140 (C.43:6A-33) is  
31 amended to read as follows:

32 33. a. Upon the basis of the tables recommended by the  
33 actuary which the commission adopts and regular interest, the  
34 actuary shall compute annually, beginning as of June 30, 1992,  
35 the amount of the contribution which shall be the normal cost as  
36 computed under the projected unit credit method attributable to  
37 service rendered under the retirement system for the year  
38 beginning on July 1 immediately succeeding the date of the  
39 computation [, expressed as a proportion of the salaries paid to  
40 all members, which if paid monthly during the entire prospective  
41 service of the members, will be sufficient to provide for the  
42 pension reserves required at the time of the discontinuance of  
43 active service, to cover all pensions to which they may be  
44 entitled or which are payable on their account and to provide for  
45 the amount of the death benefits payable on their account, which  
46 amount is not covered by other contributions to be made as  
47 provided in this section and the funds in hand available for such  
48 benefits]. This shall be known as the "normal contribution." [The  
49 actuary shall redetermine the normal contributions for the  
50 retirement system as of June 30, 1990 and June 30, 1991.]

51 b. Upon the basis of the tables recommended by the actuary  
52 which the commission adopts and regular interest, the actuary  
53 shall compute the amount of the [unfunded] accrued liability of  
54 the retirement system as of [June 30, 1990] June 30, 1992, which

1 is not already covered by the assets of the retirement system,  
2 valued in accordance with the asset valuation method established  
3 in this section[, and by prospective employer normal contributions  
4 and employee contributions]. Using the total amount of this  
5 unfunded accrued liability, the actuary shall [determine a rate of  
6 contribution that shall be an] compute the initial amount of  
7 contribution [divided by the compensation of all active members  
8 for the valuation period where] which, if the contribution is  
9 increased at a specific rate and paid annually for a specific  
10 period of time, [it] will amortize this liability. The State  
11 Treasurer shall determine, upon the advice of the Director of the  
12 Division of Pensions and Benefits, the commission and the  
13 actuary, the rate of increase for the contribution and the time  
14 period for full funding of this liability, which shall not exceed 40  
15 years on initial application of this section as amended by this  
16 act, P.L. , c. (now pending before the Legislature as this  
17 bill)<sup>1</sup>. [This shall be known as the "accrued liability contribution  
18 rate." The actuary shall compute annually an amount of  
19 contribution based upon the total compensation of all members in  
20 active service and the accrued liability contribution rate.] This  
21 shall be known as the "accrued liability contribution." Any  
22 increase or decrease in the unfunded accrued liability as a result  
23 of actuarial losses or gains for the 10 valuation years following  
24 valuation year 1992 shall serve to increase or decrease,  
25 respectively, the unfunded accrued liability contribution.  
26 Thereafter, any<sup>1</sup> increase or decrease in the unfunded accrued  
27 liability as a result of actuarial<sup>1</sup>[gains or]<sup>1</sup> losses<sup>1</sup> or gains<sup>1</sup> for  
28 subsequent valuation years shall serve to increase or decrease,  
29 respectively, the amortization period for the unfunded accrued  
30 liability, unless an increase in the amortization period will cause  
31 it to exceed<sup>1</sup>[40] 30<sup>1</sup> years. If an increase in the amortization  
32 period as a result of actuarial losses for a valuation year would  
33 exceed<sup>1</sup>[40] 30<sup>1</sup> years, the accrued liability contribution shall be  
34 computed for the valuation year in the same manner provided for  
35 the computation of the initial accrued liability contribution under  
36 this section.

37 [The value of the assets for the valuation period ending June  
38 30, 1990 shall be the full market value of the assets as of that  
39 date. The value of the assets for the valuation period ending June  
40 30, 1991 shall be the value of the assets for the preceding  
41 valuation period increased by 8 3/4%, plus the net cash flow for  
42 the valuation period (the difference between the benefits paid by  
43 the system and the contributions to the system) increased by 4  
44 3/8%, plus 20% of the difference between this expected value and  
45 the full market value of the assets as of June 30, 1991.] The  
46 value of the assets to be used in the computation of the  
47 contributions provided for under this section for [the] valuation  
48 periods [ending on or after June 30, 1992] shall be the value of  
49 the assets for the preceding valuation period increased by the  
50 regular interest rate, plus the net cash flow for the valuation  
51 period (the difference between the benefits and expenses paid by  
52 the system and the contributions to the system) increased by one  
53 half of the regular interest rate, plus 20% of the difference  
54 between this expected value and the full market value of the

1 assets as of the end of the valuation period.

2 [The tables of actuarial assumptions previously adopted by the  
3 commission for the valuation periods ending June 30, 1990 and  
4 June 30, 1991 shall be applicable to the revaluations of the  
5 retirement system under P.L.1992, c.125 (C.43:4B-1 et al.),  
6 except that the assumptions for salary increases, medical  
7 premium inflation and increases in pension adjustment benefits  
8 shall be those proposed by the actuary to the retirement system  
9 in the draft revision of the annual actuarial reports for the  
10 valuation periods ending June 30, 1990 and June 30, 1991  
11 submitted by the actuary on April 27, 1992.]

12 c. The actuary shall certify annually the aggregate amount  
13 payable to the contingent reserve fund in the ensuing year, which  
14 amount shall be equal to the sum of the [proportion of the  
15 earnable salary of all members, computed as described in  
16 subsection a. hereof and of the State's accrued liability  
17 contribution, payable in the ensuing year, as described in  
18 subsection b. hereof] amounts described in this section. The  
19 State shall pay into the contingent reserve fund during the  
20 ensuing year the amount so determined. [In the event the amount  
21 certified to be paid by the State includes amounts due for  
22 services rendered by members to counties, the total amount so  
23 certified shall be paid to the retirement system by the State;  
24 provided, however, the full cost attributable to such services  
25 rendered to such counties shall be computed separately by the  
26 actuary and the State shall be reimbursed for such amounts by  
27 such counties.]

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

32 d. (Deleted by amendment, P.L.1992, c.125.)  
33 (cf: P.L.1992, c.125, s.6)

34 <sup>1</sup>[5.] 6.1 Section 10 of P.L.1992, c.41 (C.43:6A-33.1) is  
35 amended to read as follows:

36 10. Pension adjustment benefits for members and beneficiaries  
37 of the Judicial Retirement System provided by the "Pension  
38 Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and  
39 premiums or periodic charges which the State is required to pay  
40 for benefits provided to retired State employees and their  
41 dependents under the "New Jersey State Health Benefits Program  
42 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the  
43 retirement system [from the contingent reserve fund or other  
44 fund or trust, established under the jurisdiction of the State  
45 House Commission, which shall receive contributions only to the  
46 extent that contributions cannot otherwise be made to a section  
47 401 (h) account due to the requirements of subsection (h) of  
48 section 401 of the federal Internal Revenue Code of 1986  
49 (26 U.S.C.§401). Any premium payments for retired participants  
50 shall first be a charge upon such other fund or trust and only  
51 secondarily on the assets set aside under subsection (h) of section  
52 401 of the federal Internal Revenue Code of 1986  
53 (26 U.S.C.§401). The pension adjustment benefits and premiums  
54 for health care benefits for qualified retirees] and shall be funded



1 as employer obligations [in a similar manner to that] by the same  
2 method provided by law for the funding of employer obligations  
3 for the retirement benefits provided by the retirement system[.  
4 The funding shall be phased in as determined by the State House  
5 Commission after consultation with the Director of the Division  
6 of Pensions and the actuary, except that: a. the phase-in period  
7 shall begin] beginning with valuation year 1993 [and shall be  
8 25 years, and b. any reduction in contributions from recognition  
9 of the full market value of the assets as of June 30, 1990 over the  
10 adjusted book value of the assets written up by 60% of the excess  
11 of market value over adjusted book value as of June 30, 1990 in a  
12 fashion similar to that presented in the draft revision of the  
13 annual actuarial reports for the valuation periods ending June 30,  
14 1990 and June 30, 1991 submitted by the actuary on April 27,  
15 1992 shall be used to accelerate the funding of the liabilities for  
16 pension adjustment and health care benefits. The State House  
17 Commission shall determine the assumed percentage rate of  
18 increase applied to the cost of providing health benefits for  
19 retirees].

20 (cf: P.L.1992, c.41, s.10)

21 <sup>1</sup>[6.] 7.1 Section 24 of P.L.1954, c.84 (C.43:15A-24) is  
22 amended to read as follows:

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

26 a. Upon the basis of the tables recommended by the actuary  
27 which the board adopts and regular interest, the actuary shall  
28 compute annually, beginning as of March 31, 1992, the amount of  
29 contribution which shall be the normal cost as computed under  
30 the projected unit credit method attributable to service rendered  
31 under the retirement system for the year beginning on July 1  
32 immediately succeeding the date of the computation [, expressed  
33 as a proportion of the compensation paid to all members, which,  
34 if paid monthly during the entire prospective service of the  
35 members, will be sufficient to provide for the pension reserves  
36 required at the time of discontinuance of active service, to cover  
37 all pensions to which they may be entitled or which are payable  
38 on their account and to provide for the amount of the death and  
39 accidental disability benefits payable on their account, and which  
40 amount is not covered by other contributions, to be made as  
41 provided in this section and the funds in hand available for such  
42 benefits]. This shall be known as the "normal contribution." [The  
43 actuary shall redetermine the normal contributions for the  
44 retirement system as of March 31, 1990 and March 31, 1991.]

45 b. Upon the basis of the tables recommended by the actuary  
46 which the board adopts and regular interest, the actuary shall  
47 compute the amount of the [unfunded] accrued liability of the  
48 retirement system as of [March 31, 1990] March 31, 1992 under  
49 the projected unit credit method, excluding the liability for  
50 pension adjustment benefits [and post-retirement medical  
51 benefits] for active employees funded pursuant to section 2 of  
52 P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by  
53 the assets of the retirement system, valued in accordance with  
54 the asset valuation method established in this section[, and by

1 prospective employer normal contributions and employee  
2 contributions]. Using the total amount of this unfunded accrued  
3 liability, the actuary shall [determine a rate of contribution that  
4 shall be an] compute the initial amount of contribution [divided  
5 by the compensation of all active members for the valuation  
6 period where] which, if the contribution is increased at a specific  
7 rate and paid annually for a specific period of time, [it] will  
8 amortize this liability. The State Treasurer shall determine, upon  
9 the advice of the Director of the Division of Pensions and and  
10 Benefits, the board of trustees and the actuary, the rate of  
11 increase for the contribution and the time period for full funding  
12 of this liability, which shall not exceed 40 years <sup>1</sup>on initial  
13 application of this section as amended by this act, P.L. , c.  
14 (now pending before the Legislature as this bill)<sup>1</sup>. [This shall be  
15 known as the "accrued liability contribution rate." The actuary  
16 shall compute annually an amount of contribution based upon the  
17 total compensation of all members in active service and the  
18 accrued liability contribution rate.] This shall be known as the  
19 "accrued liability contribution." Any <sup>1</sup>increase or decrease in  
20 the unfunded accrued liability as a result of actuarial losses or  
21 gains for the 10 valuation years following valuation year 1992  
22 shall serve to increase or decrease, respectively, the unfunded  
23 accrued liability contribution. Thereafter, any<sup>1</sup> increase or  
24 decrease in the unfunded accrued liability as a result of actuarial  
25 [gains or]<sup>1</sup> losses <sup>1</sup>or gains<sup>1</sup> for subsequent valuation years shall  
26 serve to increase or decrease, respectively, the amortization  
27 period for the unfunded accrued liability, unless an increase in  
28 the amortization period will cause it to exceed <sup>1</sup>[40] 30<sup>1</sup> years.  
29 If an increase in the amortization period as a result of actuarial  
30 losses for a valuation year would exceed <sup>1</sup>[40] 30<sup>1</sup> years, the  
31 accrued liability contribution shall be computed for the valuation  
32 year in the same manner provided for the computation of the  
33 initial accrued liability contribution under this section.

34 [The value of the assets for the valuation period ending  
35 March 31, 1990 shall be the full market value of the assets as of  
36 that date. The value of the assets for the valuation period ending  
37 March 31, 1991 shall be the value of the assets for the preceding  
38 valuation period increased by 8 3/4%, plus the net cash flow for  
39 the valuation period (the difference between the benefits paid by  
40 the system and the contributions to the system) increased by 4  
41 3/8%, plus 20% of the difference between this expected value and  
42 the full market value of the assets as of March 31, 1991.] The  
43 value of the assets to be used in the computation of the  
44 contributions provided for under this section for [the] valuation  
45 periods [ending on or after March 31, 1992] shall be the value of  
46 the assets for the preceding valuation period increased by the  
47 regular interest rate, plus the net cash flow for the valuation  
48 period (the difference between the benefits and expenses paid by  
49 the system and the contributions to the system) increased by one  
50 half of the regular interest rate, plus 20% of the difference  
51 between this expected value and the full market value of the  
52 assets as of the end of the valuation period.

53 [The tables of actuarial assumptions previously adopted by the  
54 board of trustees for the valuation periods ending March 31, 1990

1 and March 31, 1991 shall be applicable to the revaluations of the  
2 retirement system under P.L.1992, c.125 (C.43:4B-1 et al.),  
3 except that the assumptions for salary increases, medical  
4 premium inflation and increases in pension adjustment benefits  
5 shall be those proposed by the actuary to the retirement system  
6 in the draft revision of the annual actuarial reports for the  
7 valuation periods ending March 31, 1990 and March 31, 1991  
8 submitted by the actuary on April 27, 1992.]

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

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

21 (cf: P.L.1992, c.125, s.9)

22 <sup>1</sup>[7.] 8.<sup>1</sup> Section 2 of P.L.1990, c.6 (C.43:15A-24.1) is amended  
23 to read as follows:

24 2. Pension adjustment benefits for members and beneficiaries  
25 of the Public Employees' Retirement System provided by the  
26 "Pension Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.)  
27 [and premiums or periodic charges which the State is required to  
28 pay for benefits provided to retired State employees and their  
29 dependents under the "New Jersey State Health Benefits Program  
30 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the  
31 retirement system and shall be funded as employer obligations [as  
32 provided in this section. Health care benefits for State employees  
33 and their dependents shall be funded and paid through a separate  
34 fund or trust of the retirement system in accordance with the  
35 requirements of subsection (h) of section 401 of the federal  
36 Internal Revenue Code (26 U.S.C. §401) or other fund or trust,  
37 established under the jurisdiction of the board of trustees, which  
38 shall receive contributions only to the extent that contributions  
39 cannot otherwise be made to a section 401 (h) trust due to the  
40 requirements of the federal law. Any premium payments for  
41 retired participants shall first be a charge upon such other fund  
42 or trust and only secondarily on the assets set aside under the  
43 section 401(h) trust. The pension adjustment and health care  
44 benefits for qualified retirees shall be funded as employer  
45 obligations] by the same method provided by law for the funding  
46 of employer obligations for the basic retirement benefits  
47 provided by the retirement system. Normal and accrued liability  
48 [contribution rates] contributions for [these] pension adjustment  
49 benefits for active employees shall be determined for the [1990]  
50 1992 valuation year and shall be phased in so that the level of  
51 recognition of the full normal and accrued liability [contribution  
52 rates] contributions for the State [shall be 25.30% for valuation  
53 year 1990, 25.30% for valuation year 1991, and 34.50% for  
54 valuation year 1992, and for the] and other employers shall be

1 [82.50% for valuation year 1990, 93% for valuation year 1991, and  
2 93%] 20% for valuation year 1992[,] and 24% for valuation year  
3 1993, and [the level of recognition] shall be increased by [6%]  
4 2.24% for each valuation year thereafter until the full normal and  
5 accrued liability [contributions rates] contributions are fully  
6 recognized. [The board of trustees shall determine the assumed  
7 percentage rate of increase applied to the cost of providing paid  
8 health benefits for retirees. The liability for pension adjustment  
9 benefits and for premiums or periodic charges for health care  
10 benefits for retired State employees and their dependents shall be  
11 included as a liability of the retirement system as of April 1,  
12 1988.]

13 Health care benefits for retired State employees and their  
14 dependents for which the State is required to pay the premiums  
15 or periodic charges under the "New Jersey State Health Benefits  
16 Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), shall be  
17 funded and paid by the retirement system through a separate fund  
18 or trust of the retirement system in accordance with the  
19 requirements of the federal Internal Revenue Code. Beginning  
20 with the actuarial valuation period ending March 31, 1994, the  
21 actuary of the retirement system shall annually compute a  
22 contribution to fund these health care benefits which shall be the  
23 amount necessary to pay the anticipated premiums or periodic  
24 charges for the benefits for the following valuation period and to  
25 provide that the balance in the fund as of the end of the following  
26 valuation period shall be increased by 1/2 of 1% of the salary of  
27 the active members for the valuation period. If the assets in the  
28 fund are insufficient to pay the premiums or periodic charges for  
29 the benefits, they shall be paid directly by the State.  
30 (cf: P.L.1993, c.182, s.1)

31 <sup>1</sup>[8.] 9.1 Section 25 of P.L.1954, c.84 (C.43:15A-25) is  
32 amended to read as follows:

33 25. The annuity savings fund shall be the fund in which shall be  
34 credited accumulated deductions and contributions by members  
35 or on their behalf to provide for their allowances. A single  
36 account shall be established in this fund for each person who is or  
37 shall become a member and all contributions deducted from each  
38 such member's compensation shall be credited to his account  
39 regardless of the number of positions a member might hold or the  
40 number of employers as he might have.

41 [Any member who was contributing to the former "State  
42 Employees' Retirement System" shall continue to pay the  
43 proportion of compensation applicable to the age at enrollment,  
44 which proportion shall not be increased during the continuation of  
45 membership other than as provided in this section or section 58,  
46 and shall make any special payments either as lump sums or as  
47 installment payments required as a result of election by the  
48 member to obtain additional service credit. Members enrolling  
49 on and after January 2, 1955 shall contribute at the proportions  
50 applicable to group two members of the former "State  
51 Employees' Retirement System" as of June 30, 1949. No member  
52 shall be required during the continuation of his membership to  
53 increase the proportion of compensation certified at the time of  
54 becoming a member as payable by him other than as provided in

1 this section or section 58.

2 As of the effective date of this amendatory and supplementary  
3 act, all members shall contribute, as shall be determined by the  
4 actuary, exclusive of the rate for any additional death benefit  
5 provided under section 57 (C.43:15A-57), at proportions of  
6 compensation intermediate between the rates previously  
7 applicable to male and to female members, provided that in order  
8 to attain such intermediate point, the adjustment of such  
9 proportions shall be the minimum necessary increase or decrease  
10 in the contributions of members of the retirement system as such  
11 membership is constituted on the effective date of this act.]

12 Members enrolled in the retirement system on or after July 1,  
13 1994 shall contribute 5% of compensation to the system.  
14 Members enrolled in the system prior to July 1, 1994 shall  
15 contribute 5% of compensation to the system effective with the  
16 payroll period for which the beginning date is closest to July 1,  
17 1995, provided, however, that any member enrolled before July 1,  
18 1994, whose full contribution rate under the system prior to the  
19 revisions by this act was less than 6%, shall pay 4% of  
20 compensation to the system effective with the payroll period for  
21 which the beginning date is closest to July 1, 1995, and 5% of  
22 compensation to the system effective with the payroll period for  
23 which the beginning date is closest to July 1, 1996.

24 The retirement system shall certify to each State department  
25 or subdivision thereof, and to each branch of the State service  
26 not included in a State department, and to every other employer,  
27 the proportion of each member's compensation to be deducted  
28 and to facilitate the making of deductions the retirement system  
29 may modify the deduction required by a member by such an  
30 amount as shall not exceed 1/10 of 1% of the compensation upon  
31 the basis of which the deduction is to be made.

32 If payment in full, representing the monthly or biweekly  
33 transmittal and report of salary deductions, is not made within 15  
34 days of the due date established by the retirement system,  
35 interest at the rate of 6% per annum shall commence to run  
36 against the total transmittal of salary deductions for the period  
37 on the first day after such fifteenth day.

38 Every employee to whom this act applies shall be deemed to  
39 consent and agree to any deduction from his compensation  
40 required by this act and to all other provisions of this act.  
41 Notwithstanding any other law, rule or regulation affecting the  
42 salary, pay, compensation, other perquisites, or tenure of a  
43 person to whom this act applies, or shall apply, and  
44 notwithstanding that the minimum salary, pay, or compensation  
45 or other perquisites provided by law for him shall be reduced  
46 thereby, payment, less such deductions, shall be a full and  
47 complete discharge and acquittance of all claims and demands for  
48 service rendered by him during the period covered by such  
49 payment.

50 (cf: P.L.1979, c.106, s.3)

51 <sup>1</sup>[9.] <sup>10.1</sup> Section 60 of P.L.1954, c.84 (C.43:15A-60) is  
52 amended to read as follows:

53 60. a. Each public employee veteran member shall have  
54 returned to him his accumulated deductions as of January 2,

1 1955. All service rendered in office, position, or employment of  
2 this State or of a county, municipality, school district, board of  
3 education, or other public employer, or service rendered for the  
4 State University of New Jersey, an instrumentality of this State,  
5 after April 16, 1945, and the New Jersey State Agricultural  
6 Experiment Station established by an act approved March 10,  
7 1880 (P.L.1880, c.106 and continued pursuant to chapter 16 of  
8 Title 4 of the Revised Statutes), an instrumentality of this State,  
9 excluding service rendered as county extension service farm and  
10 home demonstration agents, by such veteran member previous to  
11 January 2, 1955, for which evidence satisfactory to the  
12 retirement system is presented, shall be credited to him as a  
13 "Class B" member and the obligation of the employer on account  
14 of such credit shall be known as the accrued liability on behalf of  
15 such veteran member; provided, however, that no credit shall be  
16 allowed for such service rendered prior to January 2, 1955 unless  
17 the member purchases credit for all eligible service rendered on  
18 or after such date.

19 b. The accrued liability on behalf of State employee veteran  
20 members including veteran members employed by the State  
21 University of New Jersey or by the New Jersey Agricultural  
22 Experiment Station shall be paid by the State as provided in  
23 section 24. The accrued liability on behalf of other public  
24 employee veteran members shall be paid by their employers, as of  
25 January 2, 1955, or the date of the next annual valuation of the  
26 retirement system following his enrollment, whichever is later, in  
27 the same manner as provided in the case of State employee  
28 veteran members in section 24. The retirement system shall  
29 certify to the chief fiscal officer of the employer the accrued  
30 liability contribution payable by such employer on behalf of  
31 veteran members.

32 c. Each public employee veteran members shall make  
33 contributions to the retirement system at the rates of  
34 contribution applicable to Class B members of group two of the  
35 former "State Employees' Retirement System" as of June 30,  
36 1949, as provided in section 25. Each public employee veteran  
37 member shall pay the proportion of compensation applicable to  
38 his age at the commencement of employment, position or office  
39 with the State, any county, municipality or school district, board  
40 of education, or other public employer except that where such  
41 service has not been continuous, the public employee veteran  
42 member shall pay the proportion of compensation applicable to  
43 the age resulting from the subtraction of his years of service  
44 from his age as of January 2, 1955. No public employee veteran  
45 member shall be required during the continuation of his  
46 membership to increase the proportion of compensation certified  
47 at the time of becoming a member as payable by him, except as  
48 provided in section 25 (C.43:15A-25) [or section 58  
49 (C.43:15A-58)].

50 d. In the event that a public employee veteran who prior to  
51 January 2, 1955 rendered service in office, position or  
52 employment of this State, including such service rendered for any  
53 instrumentality enumerated in paragraph a. of this section, or of  
54 a county, municipality, or school district, board of education, or

1 other public employer, but who is not in such office, position or  
2 employment on January 2, 1955, shall later become a member of  
3 the retirement system, such public employee veteran member  
4 shall receive prior service credit for service rendered prior to  
5 January 2, 1955, for which evidence satisfactory to the  
6 retirement system is presented, and shall pay the proportion of  
7 compensation, applicable to the age resulting from the  
8 subtraction of his years of such prior service from his age on the  
9 date of his becoming a member of the retirement system as  
10 provided in section 25 (C. 43:15A-25). The employer of such  
11 public employee veteran on the date of his becoming a member  
12 shall pay the accrued liability on behalf of such prior service, and  
13 such liability shall be paid in such a manner that the total  
14 obligation will be met within the period of time fixed for the  
15 liquidation of such accrued liability of the employer.

16 (cf: P.L.1979, c.106, s.4)

17 <sup>1</sup>[10.] 11.<sup>1</sup> Section 15 of P.L.1944, c.255 (C.43:16A-15) is  
18 amended to read as follows:

19 15. (1) The contributions required for the support of the  
20 retirement system shall be made by members and their employers.

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

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

24 (4) [Each employer shall make contributions equal to the  
25 percentage of compensation of members in its employ as  
26 certified by the board of trustees based on annual actuarial  
27 valuations. The percentage rate of contribution payable by  
28 employers shall be determined initially on the basis of the entry  
29 age normal cost method.] Upon the basis of the tables  
30 recommended by the actuary which the board adopts and regular  
31 interest, the actuary shall compute annually, beginning as of June  
32 30, 1991, the amount of contribution which shall be the normal  
33 cost as computed under the projected unit credit method  
34 attributable to service rendered under the retirement system for  
35 the year beginning on July 1 immediately succeeding the date of  
36 the computation. This shall be known as the "normal  
37 contribution." [The actuary shall redetermine the normal  
38 contributions for the retirement system as of June 30, 1989 and  
39 June 30, 1990.]

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

41 (6) [The percentage rates of contribution payable by employers  
42 pursuant to subsection (4) of this section shall be subject to  
43 adjustment from time to time by the board of trustees with the  
44 advice of the actuary on the basis of annual actuarial valuations  
45 and experience investigations as provided under section 13, so  
46 that the value of future contributions of members and employers,  
47 when taken with present assets, shall be equal to the value of  
48 prospective benefit payments.] (Deleted by amendment, P.L. \_\_\_\_\_,  
49 c. (now pending before the Legislature as this bill).)

50 (7) Each employer shall cause to be deducted from the salary  
51 of each member the percentage of earnable compensation  
52 prescribed in subsection (2) of this section. To facilitate the  
53 making of deductions, the retirement system may modify the  
54 amount of deduction required of any member by an amount not to

1 exceed 1/10 of 1% of the compensation upon which the deduction  
2 is based.

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

18 (9) Upon the basis of the tables recommended by the actuary  
19 which the board adopts and regular interest, the actuary shall  
20 compute the amount of the [unfunded] accrued liability as of  
21 [June 30, 1989] June 30, 1991 under the projected unit credit  
22 method, which is not already covered by the assets of the  
23 retirement system, valued in accordance with the asset valuation  
24 method established in this section[, and by prospective employer  
25 normal contributions and employee contributions]. Using the  
26 total amount of this unfunded accrued liability, the actuary shall  
27 [determine a rate of contribution that shall be an] compute the  
28 initial amount of contribution [divided by the compensation of all  
29 active members for the valuation period where] which, if the  
30 contribution is increased at a specific rate and paid annually for a  
31 specific period of time, [it] will amortize this liability. The State  
32 Treasurer shall determine, upon the advice of the Director of the  
33 Division of Pensions and Benefits, the board of trustees and the  
34 actuary, the rate of increase for the contribution and the time  
35 period for full funding of this liability, which shall not exceed 40  
36 years <sup>1</sup>on initial application of this section as amended by this  
37 act, P.L. , c. (now pending before the Legislature as this  
38 bill)<sup>1</sup>. [This shall be known as the "accrued liability contribution  
39 rate." The actuary shall compute annually an amount of  
40 contribution based upon the total compensation of all members in  
41 active service and the accrued liability contribution rate.] This  
42 shall be known as the "accrued liability contribution." Any  
43 <sup>1</sup>increase or decrease in the unfunded accrued liability as a result  
44 of actuarial losses or gains for the 10 valuation years following  
45 valuation year 1991 shall serve to increase or decrease,  
46 respectively, the unfunded accrued liability contribution.  
47 Thereafter, any<sup>1</sup> increase or decrease in the unfunded accrued  
48 liability as a result of actuarial <sup>1</sup>[gains or]<sup>1</sup> losses <sup>1</sup>or gains<sup>1</sup> for  
49 subsequent valuation years shall serve to increase or decrease,  
50 respectively, the amortization period for the unfunded accrued  
51 liability, unless an increase in the amortization period will cause  
52 it to exceed <sup>1</sup>[40] <sup>1</sup>30<sup>1</sup> years. If an increase in the amortization  
53 period as a result of actuarial losses for a valuation year would  
54 exceed <sup>1</sup>[40] <sup>1</sup>30<sup>1</sup> years, the accrued liability contribution shall be



1 computed for the valuation year in the same manner provided for  
2 the computation of the initial accrued liability contribution under  
3 this section.

4 [The value of the assets for the valuation period ending June  
5 30, 1989 shall be the full market value of the assets as of that  
6 date. The value of the assets for the valuation period ending June  
7 30, 1990 shall be the value of the assets for the preceding  
8 valuation period increased by  $8\frac{3}{4}\%$ , plus the net cash flow for  
9 the valuation period (the difference between the benefits paid by  
10 the system and the contributions to the system) increased by  $4\frac{3}{8}\%$ , plus 20% of the difference between this expected value and  
11 the full market value of the assets as of June 30, 1990.] The  
12 value of the assets to be used in the computation of the  
13 contributions provided for under this section for [the] valuation  
14 periods [ending on or after June 30, 1991] shall be the value of  
15 the assets for the preceding valuation period increased by the  
16 regular interest rate, plus the net cash flow for the valuation  
17 period (the difference between the benefits and expenses paid by  
18 the system and the contributions to the system) increased by one  
19 half of the regular interest rate, plus 20% of the difference  
20 between this expected value and the full market value of the  
21 assets as of the end of the valuation period.  
22

23 [The tables of actuarial assumptions previously adopted by the  
24 board of trustees for the valuation periods ending June 30, 1989  
25 and June 30, 1990 shall be applicable to the revaluations of the  
26 retirement system under P.L.1992, c.125 (C.43:4B-1 et al.),  
27 except that the assumptions for salary increases, medical  
28 premium inflation and increases in pension adjustment benefits  
29 shall be those proposed by the actuary to the retirement system  
30 in the draft revision of the annual actuarial reports for the  
31 valuation periods ending June 30, 1989 and June 30, 1990  
32 submitted by the actuary on April 27, 1992.]

33 The normal and accrued liability contributions[, which] shall be  
34 certified annually by the retirement system [no later than  
35 December 31 each year,] and shall be included in the budget of  
36 the employer and levied and collected in the same manner as any  
37 other taxes are levied and collected for the payment of the  
38 salaries of members.

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

47 If payment of the full amount of the employer's obligation is  
48 not made within 30 days of the due date established by this act,  
49 interest at the rate of 10% per annum shall commence to run  
50 against the unpaid balance thereof on the first day after such  
51 30th day.

52 If payment in full, representing the monthly transmittal and  
53 report of salary deductions, is not made within 15 days of the due  
54 date established by the retirement system, interest at the rate of

1 10% per annum shall commence to run against the total  
2 transmittal of salary deductions for the period on the first day  
3 after such 15th day.

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

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

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

20 (14) Commencing with valuation year 1991, with payment to be  
21 made in Fiscal Year 1994, the Legislature shall annually  
22 appropriate and the State Treasurer shall pay into the pension  
23 accumulation fund of the retirement system an amount equal to  
24 <sup>1</sup>[1.4%] 1.1%<sup>1</sup> of the compensation of the members of the system  
25 [upon which the normal contribution rate is based] for the  
26 valuation year to fund the benefits provided by section 16 of  
27 P.L.1964, c.241 (C.43:16A-11.1), as amended by P.L.1979, c.109.  
28 (cf: P.L.1992, c.125, s.15)

29 <sup>1</sup>[11.] 12.<sup>1</sup> Section 3 of P.L.1987, c.384 (C.52:14-17.32f) is  
30 amended to read as follows:

31 3. A qualified retiree from the Teachers' Pension and Annuity  
32 Fund (N.J.S.18A:66-1 et seq.) and dependents of a qualified  
33 retiree, but not including survivors, are eligible to participate in  
34 the program, regardless of whether the retiree's employer  
35 participated in the program.

36 A qualified retiree is a retiree who:

37 a. Retired on a benefit based on 25 or more years of service  
38 credit;

39 b. Retired on a disability pension based on fewer years of  
40 service credit; or

41 c. Elected deferred retirement based on 25 or more years of  
42 service credit and who receives a retirement allowance.

43 The program shall reimburse a qualified retiree who  
44 participates in the program for the premium charges under Part B  
45 of the federal medicare program for the retiree and the retiree's  
46 spouse. A qualified retiree who retired under subsections a. and  
47 b. of this section prior to the effective date of this 1987  
48 amendatory and supplementary act is eligible for the coverage if  
49 the retiree applies to the program for it within one year after the  
50 effective date, and a qualified retiree as defined under subsection  
51 c. of this section whose retirement allowance commenced prior  
52 to the effective date of this 1992 amendatory act is eligible for  
53 the coverage if the retiree applies to the program for it within  
54 one year after the effective date.

1 The premium or periodic charges for benefits provided to a  
2 qualified retiree and the dependents of the retiree, and the cost  
3 for reimbursement of medicare premiums shall be paid by the  
4 Teachers' Pension and Annuity Fund. [The State Health Benefits  
5 Commission shall annually certify to the fund the cost for  
6 providing health benefits coverage to qualified retirees and their  
7 dependents under this section. The fund shall annually remit to  
8 the commission the amount certified at a time specified by the  
9 State Treasurer.]

10 (cf: P.L.1992, c.126, s.1)

11 <sup>1</sup>[12.] 13.<sup>1</sup> Section 34 of P.L.1965, c.89 (C.53:5A-34) is  
12 amended to read as follows:

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

15 a. Upon the basis of the tables recommended by the actuary  
16 which the board adopts and regular interest, the actuary shall  
17 compute annually, beginning as of June 30, 1992, the amount of  
18 the contribution which shall be the normal cost as computed  
19 under the projected unit credit method attributable to service  
20 rendered under the retirement system for the year beginning on  
21 July 1 immediately succeeding the date of the computation[,  
22 expressed as a proportion of the salaries paid to all members,  
23 which, if paid monthly during the entire prospective service of  
24 the members, will be sufficient to provide for the pension  
25 reserves required at the time of the discontinuance of active  
26 service to cover all pensions to which they may be entitled or  
27 which are payable on their account and to provide for the amount  
28 of the death and accidental disability benefits payable on their  
29 account, which amount is not covered by other contributions to  
30 be made as provided in this section and the funds in hand  
31 available for such benefits]. This shall be known as the "normal  
32 contribution." [The actuary shall redetermine the normal  
33 contributions for the retirement system as of June 30, 1990 and  
34 June 30, 1991.]

35 b. Upon the basis of the tables recommended by the actuary  
36 which the board adopts and regular interest, the actuary shall  
37 compute the amount of the [unfunded] accrued liability of the  
38 retirement system as of [June 30, 1990] June 30, 1992, which is  
39 not already covered by the assets of the retirement system,  
40 valued in accordance with the asset valuation method established  
41 in this section[, and by prospective employer normal contributions  
42 and employee contributions]. Using the total amount of this  
43 unfunded accrued liability, the actuary shall [determine a rate of  
44 contribution that shall be an] compute the initial amount of  
45 contribution [divided by the compensation of all active members  
46 for the valuation period where] which, if the contribution is  
47 increased at a specific rate and paid annually for a specific  
48 period of time, [it] will amortize this liability. The State  
49 Treasurer shall determine, upon the advice of the Director of the  
50 Division of Pensions and Benefits, the board of trustees and the  
51 actuary, the rate of increase for the contribution and the time  
52 period for full funding of this liability, which shall not exceed 40  
53 years 1on initial application of this section as amended by this  
54 act, P.L. , c. (now pending before the Legislature as this

1 bill<sup>1</sup>. [This shall be known as the "accrued liability contribution  
2 rate." The actuary shall compute annually an amount of  
3 contribution based upon the total compensation of all members in  
4 active service and the accrued liability contribution rate.] This  
5 shall be known as the "accrued liability contribution." Any  
6 increase or decrease in the unfunded accrued liability as a result  
7 of actuarial losses or gains for the 10 valuation years following  
8 valuation year 1992 shall serve to increase or decrease,  
9 respectively, the unfunded accrued liability contribution.  
10 Thereafter, any<sup>1</sup> increase or decrease in the unfunded accrued  
11 liability as a result of actuarial <sup>1</sup>[gains or] <sup>1</sup>losses <sup>1</sup>or gains<sup>1</sup> for  
12 subsequent valuation years shall serve to increase or decrease,  
13 respectively, the amortization period for the unfunded accrued  
14 liability, unless an increase in the amortization period will cause  
15 it to exceed <sup>1</sup>[40] 30<sup>1</sup> years. If an increase in the amortization  
16 period as a result of actuarial losses for a valuation year would  
17 exceed <sup>1</sup>[40] 30<sup>1</sup> years, the accrued liability contribution shall be  
18 computed for the valuation year in the same manner provided for  
19 the computation of the initial accrued liability contribution under  
20 this section.

21 [The value of the assets for the valuation period ending  
22 June 30, 1990 shall be the full market value of the assets as of  
23 that date. The value of the assets for the valuation period ending  
24 June 30, 1991 shall be the value of the assets for the preceding  
25 valuation period increased by 8 3/4%, plus the net cash flow for  
26 the valuation period (the difference between the benefits paid by  
27 the system and the contributions to the system) increased by 4  
28 3/8%, plus 20% of the difference between this expected value and  
29 the full market value of the assets as of June 30, 1991.] The  
30 value of the assets to be used in the computation of the  
31 contributions provided for under this section for [the] valuation  
32 periods [ending on or after June 30, 1992] shall be the value of  
33 the assets for the preceding valuation period increased by the  
34 regular interest rate, plus the net cash flow for the valuation  
35 period (the difference between the benefits and expenses paid by  
36 the system and the contributions to the system) increased by one  
37 half of the regular interest rate, plus 20% of the difference  
38 between this expected value and the full market value of the  
39 assets as of the end of the valuation period.

40 [The tables of actuarial assumptions previously adopted by the  
41 board of trustees for the valuation periods ending June 30, 1990  
42 and June 30, 1991 shall be applicable to the revaluations of the  
43 retirement system under P.L.1992, c.125 (C.43:4B-1 et al.),  
44 except that the assumptions for salary increases, medical  
45 premium inflation and increases in pension adjustment benefits  
46 shall be those proposed by the actuary to the retirement system  
47 in the draft revision of the annual actuarial reports for the  
48 valuation periods ending June 30, 1990 and June 30, 1991  
49 submitted by the actuary on April 27, 1992.

50 An annual employer contribution for valuation years 1990 and  
51 1991 is not required if the actuarial value of the assets exceeds  
52 the sum of the entry-age accrued liability and the normal  
53 contribution for those valuation years.]

54 c. The actuary shall certify annually the aggregate amount

1 payable to the Contingent Reserve Fund in the ensuing year,  
2 which amount shall be equal to the sum of the [proportion of the  
3 earnable salary of all members, computed as described in  
4 subsection a. hereof and of the State's accrued liability  
5 contribution, payable in the ensuing year, as described in  
6 subsection b. hereof] amounts described in this section. The  
7 State shall pay into the Contingent Reserve Fund during the  
8 ensuing year the amount so certified. In the event the amount  
9 certified to be paid by the State includes amounts due for  
10 services rendered by members to specific instrumentalities or  
11 authorities the total amounts so certified shall be paid to the  
12 retirement system by the State; provided, however, the full cost  
13 attributable to such services rendered to such instrumentalities  
14 and authorities shall be computed separately by the actuary and  
15 the State shall be reimbursed for such amounts by such  
16 instrumentalities or authorities.

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

21 (cf: P.L.1992, c.125, s.18)

22 <sup>1</sup>[13.] 14.<sup>1</sup> Section 30 of P.L.1992, c.41 (C.53:5A-34.2) is  
23 amended to read as follows:

24 30. Pension adjustment benefits for members and beneficiaries  
25 of the State Police Retirement System provided by the "Pension  
26 Adjustment Act," P.L.1958, c.143 (C.43:3B-1 et seq.) [and  
27 premiums or periodic charges which the State is required to pay  
28 for benefits provided to retired State employees and their  
29 dependents under the "New Jersey State Health Benefits Program  
30 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.),] shall be paid by the  
31 retirement system [from the contingent reserve fund or other  
32 fund or trust, established under the jurisdiction of the board of  
33 trustees, which shall receive contributions only to the extent that  
34 contributions cannot otherwise be made to a section 401 (h)  
35 account due to the requirements of subsection (h) of section 401  
36 of the federal Internal Revenue Code of 1986 (26 U.S.C.§401).  
37 Any premium payments for retired participants shall first be a  
38 charge upon such other fund or trust and only secondarily on the  
39 assets set aside under subsection (h) of section 401 of the federal  
40 Internal Revenue Code of 1986 (26 U.S.C.§401). The pension  
41 adjustment benefits and premiums for health care benefits for  
42 qualified retirees] and shall be funded as employer obligations [in  
43 a similar manner to that] by the same method provided by law for  
44 the funding of employer obligations for the retirement benefits  
45 provided by the retirement system[. The funding shall be phased  
46 in as determined by the board of trustees after consultation with  
47 the Director of the Division of Pensions and the actuary, except  
48 that: a. the phase-in period shall begin] beginning with valuation  
49 year 1993 [and shall be 25 years, and b. any reduction in  
50 contributions from recognition of the full market value of the  
51 assets as of June 30, 1990 over the adjusted book value of the  
52 assets written up by 60% of the excess of market value over  
53 adjusted book value as of June 30, 1990 in a fashion similar to  
54 that presented in the draft revision of the annual actuarial

1 reports for the valuation periods ending June 30, 1990 and  
2 June 30, 1991 submitted by the actuary on April 27, 1992 shall be  
3 used to accelerate the funding of the liabilities for pension  
4 adjustment benefits and health care benefits. The board of  
5 trustees shall determine the assumed percentage rate of increase  
6 applied to the cost of providing paid health benefits for retirees].

7 (cf: P.L.1992, c.41, s.30)

8 <sup>1</sup>[14.] 15.<sup>1</sup> (New section) Notwithstanding the provisions of  
9 N.J.S.18A:66-58 or any other law to the contrary, the tables of  
10 actuarial assumptions adopted by the board of trustees of the  
11 Teachers' Pension and Annuity Fund which were applicable to the  
12 actuarial valuation of the retirement system for the period  
13 ending March 31, 1992, revised as recommended by the actuary of  
14 the system based upon the results of the experience study of the  
15 system for the three-year period ending March 31, 1991, shall be  
16 the tables of actuarial assumptions for the system until the  
17 actuarial valuation for the period ending March 31, 1998, except  
18 that the impact of the revisions to the tables based upon the  
19 experience study for the three-year period ending March 31, 1991  
20 upon the employer contributions to the system shall be phased in  
21 in equal installments over the five succeeding actuarial  
22 valuations beginning with the actuarial valuation for the period  
23 ending March 31, 1993.

24 <sup>1</sup>[15.] 16.<sup>1</sup> (New section) Notwithstanding the provisions of  
25 subsection m. of N.J.S.18A:66-2 and N.J.S.18A:66-58, subsection  
26 n. of section 3 and section 31 of P.L.1973, c.140 (C.43:6A-3 and  
27 31), subsection n. of section 6 and section 19 of P.L.1954, c.84  
28 (C.43:15A-6 and 19), subsection (9) of section 1 and subsection  
29 (13) of section 13 of P.L.1944, c.255 (C.43:16A-1 and 13), and  
30 subsection p. of section 3 and section 32 of P.L.1965, c.89  
31 (C.53:5A-3 and 32) or any other law<sup>1</sup>[,]; a.<sup>1</sup> for the 1992 <sup>1</sup>[and  
32 1993] through 1996<sup>1</sup> valuation years for the Teachers' Pension  
33 and Annuity Fund, the Public Employees' Retirement System, the  
34 Judicial Retirement System and the State Police Retirement  
35 System and for the 1991 <sup>1</sup>[and 1992] through 1995<sup>1</sup> valuation  
36 years for the Police and Firemen's Retirement System, the  
37 average assumed percentage rate of increase applied to salaries  
38 shall be 2.8% less than regular interest<sup>1</sup>, and beginning with  
39 valuation year 1997 for the Teachers' Pension and Annuity Fund,  
40 the Public Employees' Retirement System, the Judicial  
41 Retirement System and the State Police Retirement System and  
42 beginning with valuation year 1996 for the Police and Fireman's  
43 Retirement System, the average assumed percentage rate of  
44 increase applied to salaries shall be reviewed and, if necessary,  
45 revised to a reasonable level determined by the respective boards  
46 of trustees, after consultation with the State Treasurer, the  
47 Director of the Division of Pensions and Benefits, and the  
48 appropriate actuary;<sup>1</sup> and <sup>1</sup>b. for the retirement systems or funds  
49 specified in subsection a.,<sup>1</sup> the assumed annual rate of increase in  
50 the Consumer Price Index for pension adjustment benefits shall  
51 be 4%<sup>1</sup>, except that if the annual rate of increase in the  
52 Consumer Price Index exceeds 4% in two consecutive valuation  
53 years, that assumed rate of increase in the Consumer Price Index  
54 shall be reviewed and, if necessary, revised to a level which

1 reasonably relates to the change in the Consumer Price Index by  
 2 the respective boards of trustees, after consultation with the  
 3 State Treasurer, the Director of the Division of Investment, the  
 4 Director of the Division of Pensions and Benefits, and the  
 5 appropriate actuary<sup>1</sup>.

6 <sup>1</sup>[16.] 17.<sup>1</sup> (New section) Notwithstanding the provisions of  
 7 the laws governing the Teachers' Pension and Annuity Fund, the  
 8 Public Employees' Retirement System, <sup>1</sup>Alternate Benefit  
 9 Programs,<sup>1</sup> the Judicial Retirement System, the Police and  
 10 Firemen's Retirement System and the State Police Retirement  
 11 System or any other law, the members of these retirement  
 12 systems may waive the amount of noncontributory insurance to  
 13 which they are entitled under the systems in excess of \$50,000.

14 <sup>1</sup>[17.] 18.<sup>1</sup> (New section) Employers other than the State  
 15 under the Public Employees' Retirement System and the Police  
 16 and Firemen's Retirement System shall pay to the State the  
 17 original contributions determined by the actuary for the 1994  
 18 fiscal year under the law prior to the revisions under this act.  
 19 The State shall pay to the respective retirement systems the  
 20 contributions required for employers other than the State as a  
 21 result of the revisions under this act. Any difference between  
 22 the original contributions and the contributions required as a  
 23 result of the revisions under this act for employers other than the  
 24 State shall be retained by the State.

25 The contribution by each employer other than the State to the  
 26 Public Employees' Retirement System and the Police and  
 27 Firemen's Retirement System for the 1995 fiscal year shall be  
 28 the amount which is the same proportion to the original  
 29 contribution amount for each employer as determined by the  
 30 actuary under the law prior to the revisions under this act, as the  
 31 total revised contribution required as a result of the revisions  
 32 under this act is to the total original contribution.

33 <sup>1</sup>[18.] 19.<sup>1</sup> (New section) Notwithstanding the provisions of  
 34 the "New Jersey State Health Benefits Program Act," P.L.1961,  
 35 c.49 (C.52:14-17.25 et seq.) or any regulation of the State Health  
 36 Benefits Commission under the act, no employer other than the  
 37 State participating in the State Health Benefits Program, except  
 38 for a participating employer which has notified the Division of  
 39 Pensions and Benefits or the State Health Benefits Commission in  
 40 writing prior to the effective date of this act of its intention to  
 41 terminate its participation in the State Health Benefits Program,  
 42 may terminate its participation in the program until July 1, 1995.

43 <sup>1</sup>[19.] 20.<sup>1</sup> N.J.S.18A:66-67 and section 58 of P.L.1954, c.84  
 44 (C.43:15A-58) are repealed.

45 <sup>1</sup>[20.] 21.<sup>1</sup> This act shall take effect immediately, but sections  
 46 <sup>1</sup>[3, 8 and 19] 4, 9 and 20<sup>1</sup> shall remain inoperative, except for  
 47 new members of the retirement systems enrolled on or after  
 48 July 1, 1994, until the payroll period for which the beginning date  
 49 is closest to July 1, 1995.

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53 Makes various changes regarding funding of certain retirement  
 54 systems and prefunding of cost-of-living adjustments and health  
 55 benefits.

1 revisions under this act for employers other than the State shall  
2 be retained by the State.

3 The contribution by each employer other than the State to the  
4 Public Employees' Retirement System and the Police and  
5 Firemen's Retirement System for the 1995 fiscal year shall be  
6 the amount which is the same proportion to the original  
7 contribution amount for each employer as determined by the  
8 actuary under the law prior to the revisions under this act, as the  
9 total revised contribution required as a result of the revisions  
10 under this act is to the total original contribution.

11 18. (New section) Notwithstanding the provisions of the "New  
12 Jersey State Health Benefits Program Act," P.L.1961, c.49  
13 (C.52:14-17.25 et seq.) or any regulation of the State Health  
14 Benefits Commission under the act, no employer other than the  
15 State participating in the State Health Benefits Program, except  
16 for a participating employer which has notified the Division of  
17 Pensions and Benefits or the State Health Benefits Commission in  
18 writing prior to the effective date of this act of its intention to  
19 terminate its participation in the State Health Benefits Program,  
20 may terminate its participation in the program until July 1, 1995.

21 19. N.J.S.18A:66-67 and section 58 of P.L.1954, c.84  
22 (C.43:15A-58) are repealed.

23 20. This act shall take effect immediately, but sections 3, 8  
24 and 19 shall remain inoperative, except for new members of the  
25 retirement systems enrolled on or after July 1, 1994, until the  
26 payroll period for which the beginning date is closest to July 1,  
27 1995.

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### 30 SPONSORS' STATEMENT

31

32 The purpose of this legislation is to implement the revisions in  
33 the State pension laws which are recommended by Governor  
34 Whitman in her proposed budget as supplemented and revised  
35 pursuant to agreement with the leadership of both Houses of the  
36 Legislature. The Pension Reform Agreement provides nine  
37 revisions to the laws governing the State retirement systems and  
38 the State Health Benefits Program as follows:

39 1. continued prefunding of post-retirement medical benefits  
40 (PRM) for State employees under the Public Employees'  
41 Retirement System (PERS), and for teachers under the Teachers'  
42 Pension and Annuity Fund (TPAF) at a reduced level through  
43 annual contributions at the rate of .5% of payroll, plus the  
44 amount sufficient to pay the current premiums;

45 2. a change in the funding method for determining the  
46 employer contributions to the retirement systems from entry age  
47 normal method to the projected unit credit method, and a reset  
48 of the amortization period for the unfunded accrued liability to  
49 40 years;

50 3. a change in the employee contribution rates to TPAF and  
51 PERS to a flat 5% for new employees effective July 1, 1994, and  
52 a flat 5% for current employees effective July 1, 1995, with a 1%  
53 offset for current employees whose current full contribution rate  
54 is less than 6% until July 1, 1996 (the 2% Social Security offset



1 would be eliminated);

2 4. a phase-in of the impact of revisions in the tables of  
3 actuarial assumptions under TPAF over five years;

4 5. reversion to the original schedule for recognition and  
5 funding of pension adjustment benefits (cost-of-living  
6 adjustments - COLA) under TPAF and PERS established by the  
7 laws which originally provided for the funding of these benefits  
8 under the retirement systems;

9 6. reduction of the inflation assumption for the COLA benefits  
10 for retirees for valuation years 1992 and 1993, or in the case of  
11 PFRS, valuation years 1991 and 1992 (this change is possible  
12 because the COLA increase is known for those two valuation  
13 years);

14 7. reduction in the salary increase assumption to 2.8% less  
15 than the regular interest rate for valuation years 1992 and 1993,  
16 or in the case of PFRS, valuation years 1991 and 1992 (this  
17 change is possible because the salary increase is known for those  
18 two valuation years);

19 8. authorization for the members of these retirement systems  
20 to waive noncontributory insurance benefits in excess of \$50,000;  
21 and,

22 9. a moratorium on withdrawals by participating employers  
23 from the State Health Benefits Program (SHBP).

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29 Makes various changes regarding funding of certain retirement  
30 systems and prefunding of cost-of-living adjustments and health  
benefits.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 1263

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 23, 1994

The Senate Budget and Appropriations Committee reports favorably and with committee amendments Senate Bill No. 1263.

This bill, as amended, states, in a section of legislative findings and declarations, that public pension assets must be managed and administered to maintain their value and ensure appropriate levels of return on investment; that the accumulated assets of the public pension systems and their economic enhancement exist for the benefit of the retirees and members of those systems; that the statutorily-established benefits to which they are entitled belong to the retirees; and that no present or future retirees of the pension systems shall receive any reduction in benefits as a result of the provisions of this act.

The bill, as amended:

(1) continues prefunding of post-retirement medical benefits (PRM) for State employees under the Public Employees' Retirement System, and for teachers under the Teachers' Pension and Annuity Fund at a reduced level through annual contributions at the rate of .5% of payroll, plus the amount sufficient to pay the current premiums;

(2) changes the funding method for determining the employer contributions to the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) from the entry age normal method to the projected unit credit method, and resets the amortization period for the unfunded accrued liability to an initial period not to exceed 40 years, with a 10-year transition period to a flexible 30-year amortization period;

(3) changes the employee contribution rates to TPAF and PERS to a flat 5% for new employees effective July 1, 1994, and a flat 5% for current employees effective July 1, 1995, with a 1% offset for current employees whose current full contribution rate is less than 6% until July 1, 1996 (the 2% Social Security offset would then be eliminated);

(4) phases in the impact of revisions in the tables of actuarial assumptions under TPAF over five years;

(5) reverts to the original schedule for recognition and funding of pension adjustment benefits (cost-of-living adjustments - COLA) under TPAF and PERS established by the laws which originally provided for the funding of these benefits under the retirement systems;

(6) establishes for TPAF, JRS, PERS, PFRS, and SPRS a 4% inflation assumption for the COLA benefits, except that if the actual annual rate of increase in the Consumer Price Index exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the

State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index . . . .";

(7) establishes a salary increase assumption of 2.8% less than the regular interest rate for valuation years 1992 through 1996 (or in the case of PFRS, valuation years 1991 through 1995), at which time the respective boards of trustees of the retirement systems shall review that assumed percentage rate of salary increase and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the 2.8% to a "reasonable level";

(8) authorizes the members of TPAF, JRS, PERS, PFRS, and SPRS and participants in the Alternate Benefit Program to waive noncontributory insurance benefits in excess of \$50,000;

(9) establishes a moratorium on withdrawals by participating employers from the State Health Benefits Program (SHBP); and

(10) changes the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L.1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year.

This legislation implements the revisions in the State pension laws which have been recommended by Governor Whitman in her proposed budget as supplemented and revised pursuant to agreement with the leadership of both Houses of the Legislature.

#### COMMITTEE AMENDMENTS:

The committee amended the bill to:

(1) insert a statement of legislative findings and declarations that public pension assets must be managed and administered to maintain their value and ensure appropriate levels of return on investment; that the accumulated assets of the public pension systems and their economic enhancement exist for the benefit of the retirees and members of those systems; that the statutorily-established benefits to which they are entitled belong to said retirees; and that no present or future retirees of the pension systems shall receive any reduction in benefits as a result of the provisions of this act;

(2) provide for an initial 40-year amortization period for the unfunded accrued liability with a 10-year transition period to a flexible 30-year amortization period (during the 10-year period, any actuarial losses or gains would increase or decrease the unfunded accrued liability contribution; after that 10-year period, any such losses or gains would increase or decrease the amortization period, but in no case could the amortization period exceed 30 years);

(3) change the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L.1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year (this is possible because of the changes made by this bill, such as the changes in assumptions and the change in the method of calculating normal cost of employer contributions);

(4) extend to participants in the Alternate Benefit Program the ability to waive the amount of noncontributory insurance to which they are entitled which exceed \$50,000;

(5) provide that the average assumed percentage rate of increase applied to salaries of 2.8% less than regular interest shall be applicable for five years rather than two, and that at the end of that period the respective boards of trustees of the retirement systems shall review and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise that assumed percentage rate to a "reasonable level"; and

(6) provide that the assumed annual rate of increase in the Consumer Price Index for the purpose of funding pension adjustment benefits shall be 4%, except that if the actual annual rate of increase in the C.P.I. exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits, and the appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index . . ." (the bill as introduced limited the 4% inflation assumption to two years).

FISCAL IMPACT:

This proposal is expected to generate \$1.3 billion in savings or reduced employer contributions to fund the retirement systems over FY1994 and FY1995. Current year employer contributions would be reduced by approximately \$500 million, of which approximately \$135 million is in savings of local government contributions. FY1995 expenditures would be reduced by approximately \$760 million.

### PENSION SYSTEM REFORM

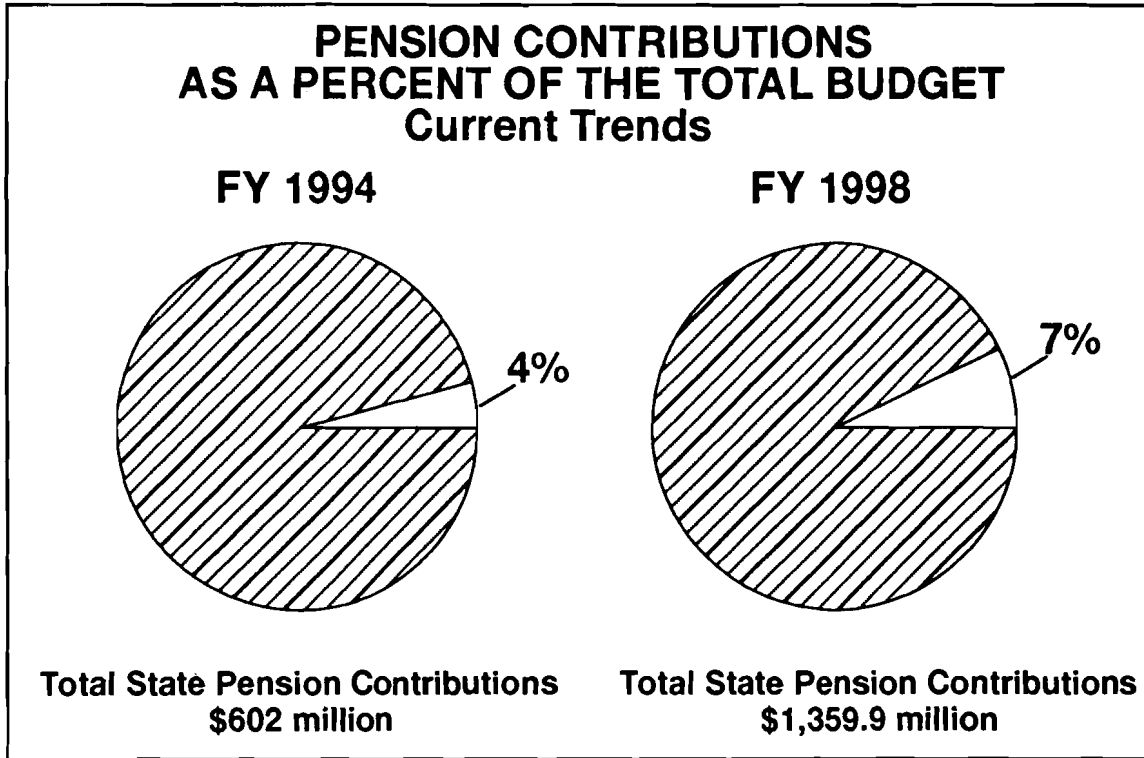
The proposed budget anticipates several changes to fund more accurately and appropriately long-term pension requirements. They are based on the following principles:

#### Pension System Reform Principles

- Pension and Health Benefits should not be altered
- Actuarial assumptions should reflect current economic conditions

- One time savings should be avoided
- Independent actuaries should agree with reforms.

The chart belows displays the impact of pension costs on the State budget between fiscal year 1994 and fiscal year 1998 if current funding patterns continue. The obvious consequence is that more of the budget will go for pension needs, and less money will be available for services provided by the government.



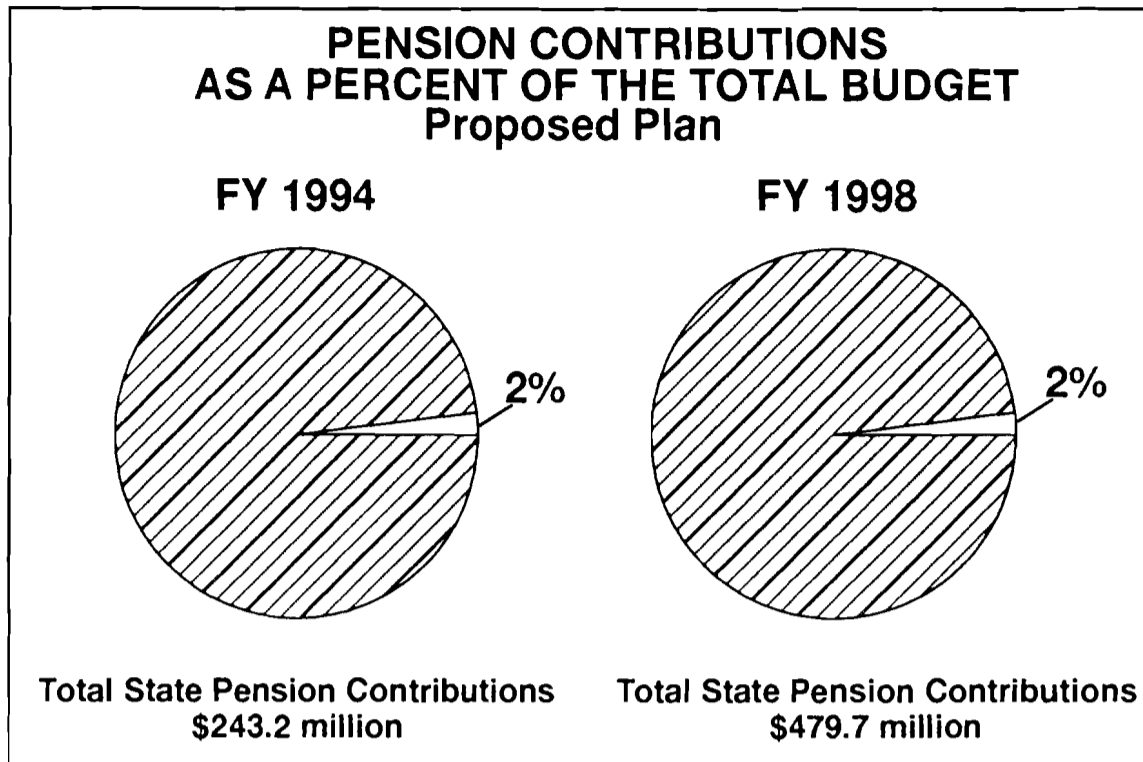
In order to address this problem six proposals will be recommended in separate legislation:

1. Eliminate pre-funding of post retirement medical benefits and switch to a pay-as-you-go method;
2. Decelerate the pre-funding of the cost-of-living adjustment;
3. Switch from the current entry age method of funding pensions to a "unit credit" method;
4. Extend the period for amortizing the unfunded liability in the pension system;

5. Extend the phase-in period for recognizing revised actuarial assumptions in the teachers' pension system;
6. Eliminate the two percent employee pension subsidy due to Social Security.

These savings reduce the fiscal year 1995 appropriations by \$736 million. The savings are continuous. When measured against actuarially determined costs, the changes, would save approximately \$880 million in fiscal year 1998.

As the following chart indicates, the pension changes will stabilize pension costs with respect to the overall budget.



**1. Prefunding of Post Retirement Health Care Coverage**

The State currently provides 100 percent of the cost of post-retirement medical (PRM) coverage for certain retired employees. In particular, a retired State employee under Public Employees Retirement System (PERS) and retired teachers and other employees of local boards of education under the Teachers' Pension

and Annuity Fund (TPAF) and PERS who have completed 25 years of service or who are retired under the disability provision of these programs are covered for medical benefits after retirement. This coverage includes the cost of the sponsor provided benefits, as well as the Medicare Part B premium. For the 1995 fiscal year, the estimated annual costs per individual are as follows:

Coverage	PERS		TPAF	
	Pre 65	Post 65	Pre 65	Post 65
Single Retiree	\$2,785	\$1,459	\$2,710	\$1,445
Retiree w/Spouse	5,960	4,085	5,903	3,938
Retiree w/Family	7,093	5,154	6,902	4,857
Medicare Part B	N/A	523	N/A	523

**History:** State employees began to receive post-retirement medical coverage in 1972. In 1987, the decision was made to extend PRM benefits to TPAF members and to pre-fund the benefits (as well as post-retirement COLA benefits) under the retirement system. To this

end, liabilities for retirees were fully recognized and were to be funded through the annual contributions. Under the 1987 package, liabilities would be fully funded by the year 2017.

The pension refinancing package, adopted effective with the 1990 valuations, changed a number of aspects of the existing funding policy. Among the changes was an acceleration of the recognition of the active employee post-retirement medical (PRM) liability. Full recognition would occur in the year 2004. However, Chapter 8, P.L. 1993 revised this schedule further. Full recognition of liability would occur by the year 2003. This schedule remains in effect today. The various accelerations have had the effect of increasing appropriations (the annual payment to the pension systems) by substantial amounts.

**Proposal:** Revert to pay-as-you-go funding of this benefit.

**Rationale for Change:** Since 1990, two very dramatic and related developments have occurred.

First, medical inflation rates have decreased dramatically from the mid-to-high teens (or more) to a level which is below six percent. In the case of the State's increases, the latest annual renewals for fiscal year 1995 show a negative impact; i.e., reduced rates for this coverage.

### Health Insurance Inflation Assumptions

Valuation Year	Current Assumption	Proposed Assumption
1993	12%	8.0%
1994	12%	7.5%
1995	12%	7.0%
1996	12%	6.5%
1997	12%	6.0%
1998	12%	6.0%
1999	12%	6.0%
2000 and after	7%	6.0%

Presently only seven states prefund post-retirement medical benefit costs. Large systems that do not pre-fund medical benefit costs include, Pennsylvania, Illinois, Ohio,

New York, Connecticut, Massachusetts, and Florida. The proposals will reduce appropriation needs over the next five years.

### Savings:

Fiscal Year	State Budget
1994	\$268 million
1995	341 million
1996	376 million
1997	306 million
1998	327 million

## 2. Decelerate the Prefunding of Cost-of-Living Adjustments (COLA's)

**Program Description:** Public pension system retirees receive annual COLAs equal to 60 percent of the change in the Consumer Price Index.

**History:** Beginning in 1970, annual COLA adjustments in the pensioners' benefit were instituted. These COLA benefits were paid by government employers on a pay-as-you-go basis.

Beginning with the TPAF in 1987, pre-funding of the COLA through the retirement systems was initiated. Pre-funding of COLA under the Police and Firemen's Retirement System (PFRS) was begun in 1989, and under the PERS in 1988. The pension revaluation legislation in 1992 provided for pre-funding COLA and post-retirement medical benefits for members of the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) beginning in fiscal year 1995.

To avoid dramatic increases in current pension contributions (related to the full funding of the liability) a phase-in schedule was adopted. Under TPAF, the phase-in period was initially set at 30 years beginning in 1987, and under PERS, at 25 years beginning in 1988. However, the recent pension restructuring accelerated the phase-in of the COLA liability. This, like the post retirement change, placed a substantial burden on the budget.

# Policy Initiatives

**Proposal:** Revert to the phase-in policy prior to the 1992 pension reform. The proposal will reduce appropriation needs on an ongoing basis.

**Savings:**

Fiscal Year	State Budget	Local Government
1994	\$33 million	\$57 million
1995	88 million	62 million
1996	53 million	67 million
1997	64 million	72 million
1998	75 million	77 million

### 3. The Unit Credit Funding Method

**Program Description:** There are a number of acceptable actuarial funding methods used in connection with the budgeting of pensions costs. These are budgeting tools — the various methods simply affect the timing of contributions.

Methods include the “entry age” funding method (the current State method) and the “unit credit” funding method (the proposed method).

The entry age method determines the liability for future service based on the value of contributions that would have been payable during an employee’s entire career in order to fund his or her pension. This method calculates the annual payment as a constant percentage of his/her career earnings.

The unit credit funding method, on the other hand, funds only the year-to-year increase in liability.

Currently, the State Pension System has used the entry age system since inception. This budget proposes to change the budgeting technique to the unit credit funding method from the entry age funding method. The unit credit funding method allows for changes in actuarial assumptions to be immediately captured in contribution levels. Overall employee levels will decline in the long term. Use of the unit credit funding method will allow the State to realize savings quickly.

**Savings:**

Fiscal Year	State Budget
1994	\$ 54.9 million
1995	121.3 million
1996	222.3 million
1997	274.2 million
1998	314.0 million

### 4. Amortizing the Unfunded Liability — The 40 Year Period

**Program Description:** A portion of the pension system accrued liability is unfunded. These amounts are funded over a period of time. Present law allows for an amortization period of up to 40 years. Currently, the State uses 30 years. The budget proposes changing the amortization period to 40 years.

**Savings:**

Fiscal Year	State Budget	Local Government
1994	\$3.7 million	\$21.4 million
1995	28.1 million	22.5 million
1996	10.6 million	10.5 million
1997	11.3 million	11.2 million
1998	11.9 million	11.8 million

### 5. Extend Phase-in Period for Recognizing Revised TPAF Actuarial Assumptions.

**Program Description:** Current law mandates that every three years an experience study of each pension system occur in order to revise actuarial assumptions.

New Jersey has a history of extending the period for recognition of actuarial assumption changes. For example, there was a one-year delay and a two-year phase-in for the actuarial changes produced from the study for the period ending March 1988. Changes proposed under a current study were to be phased-in over a two-year period as well. The budget extends the two-year phase-in to five years. Appropriation needs will be reduced.

**Savings:**

Fiscal Year	State Budget
1994	\$ —
1995	60 million
1996	56 million
1997	40 million
1998	23 million

### 6. Elimination of the 2% Employee Pension Contribution Reduction Due to Social Security

**Program Description:** Public pension benefits were reduced by the amount of social security benefits a retiree received. This “integration” of public pension and social security benefits meant that employees would be overpaying into their pension and social security.



systems when compared with the benefits received. To eliminate this inequity, since 1955 New Jersey government employees (State and local government and school districts) under PERS and TPAF have received a subsidy toward their employee pension contributions for Social Security contributions up to the Social Security maximum wage base.

But, in 1966, the integration of the Social Security and Pension Systems was eliminated, meaning that state and local retirees no longer received reduced retiree benefits. However, the two percent reduction in employee pension contributions was not eliminated. No other state in the nation provides this offset without an integration of benefits.

**Key Data:** Value of the two percent reduction for an employee at the maximum Social Security wage.

1959: \$ 120/yr.

1966: 132/yr.

1994: 1,212/yr.

The budget proposed elimination of the pension subsidy. It will reduce appropriations on an ongoing basis.

**Savings:**

Fiscal Year	State Budget
1994	\$ —
1995	98 million
1996	114 million
1997	122 million
1998	130 million