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LEGISLATIVE HISTORY CHECKLIST
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(PFRS - early retirement)

NJSA: 30:6D-40

LAWS OF: 1993 **CHAPTER:** 99

BILL NO: A126

SPONSOR(S) Haytaian

DATE INTRODUCED: June 22, 1992

COMMITTEE: **ASSEMBLY:** State Government

SENATE: Budget; State Government

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

DATE OF PASSAGE: **ASSEMBLY:** December 21, 1992

SENATE: March 22, 1993

DATE OF APPROVAL: March 31, 1993

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes

COMMITTEE STATEMENT: **ASSEMBLY:** Yes

SENATE: Yes 3-11-93 & 2-1-93

FISCAL NOTE: Yes

VETO MESSAGE: No

MESSAGE ON SIGNING: No

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: No

KBG:pp

[SECOND REPRINT]

ASSEMBLY, No. 126

STATE OF NEW JERSEY

INTRODUCED JUNE 22, 1992

By Assemblyman HAYTAIAN, Assemblywoman CRECCO, Assemblymen Arnone, Azzolina and Assemblywoman J. Smith

AN ACT concerning retirement benefits for certain members of the Police and Firemen's Retirement System of New Jersey and supplementing P.L.1944, c.255 (C.43:16A-1 et seq.).

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

1. An employee of [1]the State, and an employee of[1] a participating employer under the Police and Firemen's Retirement System (PFRS) which elects to provide the benefits authorized under this act[1],[1] who:

a. is [1][50] 47[1] or more years of age and has 20 or more years of service credit under PFRS;

b. files an application to retire on or after [2][the first day of the fourth month following the effective date of this act] December 1, 1993[2] and on or before [2][the first day of the [1][eighth] 16th[1] month following that effective date] December 1, 1994[2]; and

c. retires under the retirement system on or after [2][the first day of the fifth month following the effective date of this act] January 1, 1994[2] but not later than [2][the first day of the [1][ninth] 17th[1] month following that effective date] January 1, 1995[2] shall receive an additional five years of service credit under PFRS or any lesser number of years of service credit under PFRS as will provide the member, as of the date of retirement, with a total of not more than 30 years of service credit under PFRS. The additional retirement benefit under this section is applicable only to the employee's full-time employment with the [1]State, or with the[1] employer which elects to provide the benefits authorized under this act[1],[1] and from which [1]employment[1] the employee retires to receive the benefit and the compensation for that employment.

2. An employer [1]other than the State[1] may elect to provide the benefits under this act by adoption of a resolution by its governing body and filing a certified copy of the resolution with the Director of the Division of Pensions [1]and Benefits[1] on or before [2][the first day of the second month following the effective date of this act] December 1, 1993[2]. The employer shall submit to the director any information necessary to provide the benefits or to determine the liability for them. [2][[1]Upon request by the employer other than the State prior to the adoption of such a resolution, the division shall prepare and provide to the governing

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

Matter underlined thus is new matter.
Matter enclosed in superscript numerals has been adopted as follows:
1 Assembly ASG committee amendments adopted December 3, 1992.
2 Senate SBA committee amendments adopted March 11, 1993.

body of the employer an analysis, for each of the 10 fiscal years next following the fiscal year in which the request is received, of any costs which would be incurred and any savings which would be realized by the employer if the resolution were to be adopted. The analysis shall reflect such information as the employer shall supply to the division concerning those of its employees who would be eligible for the benefits, together with any other relevant information, including but not limited to information regarding anticipated replacement of those eligible employees who elect to receive the benefits.[1]] The division shall prepare and provide to employers other than the State information on the employees eligible for the benefits under this act, estimates of the full liability to the retirement system and the payments which the employer will have to make on account of the early retirement of employees under the act, and detailed charts, tables and other information necessary for employers to do a cost/savings analysis of the impact through Fiscal Year 2003.[2]

3. The actuaries for PFRS shall determine the liability of the retirement system for the additional service credit or pensions provided under this act and for the early retirement of employees in accordance with the tables of actuarial assumptions adopted by the board of trustees of the retirement system. This liability shall be added to the unfunded accrued liability of the employer under the retirement system and shall be paid in the same manner and over the remaining time period provided for the employer's unfunded accrued liability under section 15 of P.L.1944, c.255 (C.43:16A-15), except that in the case of an employer adopting the retirement system after July 1, 1988, the time period for payment of such liability shall be in accordance with the provisions of section 21 of P.L.1971, c.175 (C.43:16A-15.4).

[2][The retirement system shall annually certify to each employer the contributions due to the contingent reserve fund for the liability under this act. The contributions certified by the retirement system shall be paid by the employer to the retirement system on or before July 1 in each year commencing with July 1, 1993. If payment of the full amount of the contribution certified is not made within 30 days after July 1, interest at the rate of regular interest shall begin to run against the unpaid balance on the first day after the thirtieth day.][2]

The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement system for the benefits under this act which shall be included in the initial contribution required from the employer.

4. An employee who receives a benefit under this act shall forfeit all tenure rights.

5. Where the needs of the [1]State or an[1] employer [1]other than the State[1] require the service of an employee who elects to retire and receive a benefit under this act, the [1]State department, or that[1] employer[1][,] other than the State[1] with the approval of the governing body of [1][the] such[1] employer[1], as the case may be,[1] and with the consent of the employee, may delay the effective retirement date of the employee until the first day of any calendar month after [2][the [1][ninth] 17th[1] month following the effective date of this act] January 1, 1995[2], but not later than [2][the first day of the [1][twenty-first] 29th[1] month following

that effective date] January 1, 1996[2]. A delay in the effective retirement date of an employee shall not extend the dates set forth in section 1 to apply and qualify for benefits under this act.

For a member of PFRS whose effective retirement date is delayed under this section and who dies before the retirement becomes effective, the retirement shall be effective as of the first day of the month after the date of death of the member if the member's beneficiary so requests in writing to the board of trustees of the retirement system.

6. An employee retiring with a benefit under this act who has not repaid the full amount of a loan from PFRS by the effective date of retirement may repay the loan through deductions from the member's retirement benefit payments in the same monthly amount which was deducted from the member's compensation immediately preceding retirement until the balance of the amount borrowed together with interest at the statutory rate is repaid. If the retiree dies before the outstanding balance of the loan and interest is repaid, the remaining amount shall be repaid as provided in section 2 of P.L.1981, c.370 (C.43:16A-16.2).

7. For the purposes of this act, "employee" means a policeman employed by [1]the State or by[1] a law enforcement unit as defined in section 2 of P.L.1961, c.56 (C.52:17B-67) [1], or a fireman employed by a firefighting unit as defined in paragraph (b) of subsection (2) of section 1 of P.L.1944, c.255 (C.43:16A-1)[1].

8. Prior to the last day upon which an employer [1]other than the State[1] may, under section 2 of this act, elect to provide the benefits under this act, each [1]such[1] employer covered by the provisions of this act shall meet and consult with the representatives of the bargaining unit or units representing the employees who would be eligible for benefits under this act and the governing body of the employer shall formally consider and decide whether or not to adopt the provisions of this act.

[2]9. An amount not to exceed $1,000,000 for the administrative expenses of the Division of Pensions and Benefits for implementation of this act shall be charged to the Police and Firemen's Retirement System Fund. Receipts from such charges, payable on a schedule to be determined by the Director of the Division of Budget and Accounting, shall be deposited in the General Fund and anticipated as revenue thereto in fiscal years 1994 and 1995. The expenses charged to the fund shall be included as a liability of the Police and Firemen's Retirement System for the purpose of determining future employer contributions or payments to the fund, or the amount of benefits to be paid under the program, as appropriate.[2]

[2][9.] 10.[2] This act shall take effect immediately.

Provides additional retirement benefits for certain police and firefighter members of PFRS.

STATEMENT

This bill provides for additional benefits for certain policemen employed by a county or municipality who retire under the Police and Firemen's Retirement System (PFRS) between the first day of the fifth month and the first day of the ninth month following the date on which the bill takes effect as law if the employer elects to provide the benefits. Employees who are 50 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

The employer may elect to provide the benefits by adoption of a resolution of its governing body and by filing a certified copy of the resolution with the Director of the Division of Pensions. The employer shall submit to the Director of the Division of Pensions any information required to provide the benefits or to determine the liability for them. The actuary for the retirement system will determine the liability for the additional service credit and pensions and for the early retirement of employees. This liability will be added to the employer's unfunded accrued liability and will be paid by the employer over the remaining time period for payment of its unfunded accrued liability.

Where the needs of an employer require the services of an employee who elects to retire and receive a benefit under this act, the employer, with the approval of the governing body and the consent of the employee, may delay the effective retirement date of the employee for up to one year. The delay authorized under the act does not extend the dates for qualification for benefits under the act. If an employee whose effective retirement is delayed dies before the retirement becomes effective, the employee's beneficiary would have the option of receiving active death benefits or retirement benefits by written request to the PFRS board of trustees.

An employee retiring with a benefit under this act who has an outstanding loan under PFRS would have the option of repaying the balance plus interest by deductions from retirement benefit payments in the same monthly amount that was deducted from the employee's compensation immediately preceding retirement.

Prior to the last day upon which an employer may adopt the provisions of the bill, each PFRS employer is required to meet and consult with the representatives of the bargaining unit or units of its employees and the governing body of the employer shall consider and decide the issue of whether or not to adopt the provisions of this act.

Provides additional retirement benefits for certain county and municipal police members of PFRS.

ASSEMBLY STATE GOVERNMENT COMMITTEE

STATEMENT TO

ASSEMBLY, No. 126

with committee amendments

STATE OF NEW JERSEY

DATED: DECEMBER 3, 1992

The Assembly State Government Committee reports favorably and with committee amendments Assembly, No. 126.

This bill establishes a temporary early retirement incentive program for certain policemen and firemen employed by the State or by counties and municipalities which elect to adopt it. Under the program, the additional benefits would be available to members of the Police and Firemen's Retirement System (PFRS) who retire under that system between the first day of the fifth month and the first day of the 17th month following the date on which the bill takes effect as law. To be eligible for the incentive, employees must be 47 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement; employees meeting these qualifications will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

An employer other than the State may elect to provide the benefits by adoption of a resolution of its governing body and by filing a certified copy of the resolution with the Director of the Division of Pensions and Benefits. The employer is to submit to the Director of the Division of Pensions and Benefits any information required to provide the benefits or to determine the liability for them. The division is to provide any county or municipal governing body, upon its request, with an analysis of the costs and savings which could be expected to result from the adoption of the program.

The actuary for the retirement system will determine the liability for the additional service credit and pensions and for the early retirement of employees. This liability will be added to the employer's unfunded accrued liability and will be paid by the employer over the remaining time period for payment of its unfunded accrued liability.

Where the needs of the State or an employer other than the State require the services of an employee who elects to retire and receive a benefit under this legislation, the employer, with the approval of the governing body in the case of an employer other than the State and with the consent of the employee, may delay the effective date of the employee's retirement for up to one year. The delay authorized under the bill does not extend the dates for qualification for benefits. If an employee whose effective date of retirement is delayed dies before the retirement becomes effective, the employee's beneficiary would have the option of receiving active death benefits or retirement benefits by written request to the PFRS board of trustees.

An employee retiring with a benefit under this bill who has an outstanding loan under PFRS would have the option of repaying the balance plus interest by deductions from retirement benefit payments in the same monthly amount that was deducted from the employee's compensation immediately preceding retirement.

Prior to the last day upon which an employer other than the State may adopt the provisions of the bill, each such PFRS employer is required to meet and consult with the representatives of the bargaining unit or units of its employees and the governing body of the employer shall consider and decide the issue of whether or not to adopt the provisions of this act.

COMMITTEE AMENDMENTS

The committee adopted amendments to this bill to (1) extend the program to firefighter members of PFRS; (2) provide that police and firefighter employees of the State shall automatically be eligible for the program; (3) reduce the minimum age at which an employee could qualify for the retirement incentive from 50 to 47 years of age; (4) delay the deadline for retiring under the program from the first day of the ninth month to the first day of the 17th month after the bill takes effect as law and adjust the application deadline and one-year retirement deferral period accordingly; and (5) require the Division of Pensions and Benefits to provide any county or municipal governing body, upon its request, with an analysis of the costs and savings which could be expected to result from adoption of the program.

SENATE STATE GOVERNMENT COMMITTEE

STATEMENT TO

[FIRST REPRINT]

ASSEMBLY, No. 126

STATE OF NEW JERSEY

DATED: FEBRUARY 1, 1993

The Senate State Government Committee reports favorably Assembly, No. 126 (1R).

This bill establishes a temporary early retirement incentive program for certain policemen and firemen employed by the State or by counties and municipalities which elect to adopt it. Under the program, the additional benefits would be available to members of the Police and Firemen's Retirement System (PFRS) who retire under that system between the first day of the fifth month and the first day of the 17th month following the date on which the bill takes effect as law. To be eligible for the incentive, employees must be 47 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement; employees meeting these qualifications will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

An employer other than the State may elect to provide the benefits by adoption of a resolution of its governing body and by filing a certified copy of the resolution with the Director of the Division of Pensions and Benefits. The employer is to submit to the Director of the Division of Pensions and Benefits any information required to provide the benefits or to determine the liability for them. The division is to provide any county or municipal governing body, upon its request, with an analysis of the costs and savings which could be expected to result from the adoption of the program.

The actuary for the retirement system will determine the liability for the additional service credit and pensions and for the early retirement of employees. This liability will be added to the employer's unfunded accrued liability and will be paid by the employer over the remaining time period for payment of its unfunded accrued liability.

Where the needs of the State or an employer other than the State require the services of an employee who elects to retire and receive a benefit under this legislation, the employer, with the approval of the governing body in the case of an employer other than the State and with the consent of the employee, may delay the effective date of the employee's retirement for up to one year. The delay authorized under the bill does not extend the dates for qualification for benefits. If an employee whose effective date of retirement is delayed dies before the retirement becomes effective, the employee's beneficiary would have the option of receiving active death benefits or retirement benefits by written request to the PFRS board of trustees.

An employee retiring with a benefit under this bill who has an outstanding loan under PFRS would have the option of repaying the balance plus interest by deductions from retirement benefit payments in the same monthly amount that was deducted from the employee's compensation immediately preceding retirement.

Prior to the last day upon which an employer other than the State may adopt the provisions of the bill, each such PFRS employer is required to meet and consult with the representatives of the bargaining unit or units of its employees and the governing body of the employer shall consider and decide the issue of whether or not to adopt the provisions of this act.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

[FIRST REPRINT]

ASSEMBLY, No. 126

with Senate committee amendments

STATE OF NEW JERSEY

DATED: MARCH 11, 1993

The Senate Budget and Appropriations Committee reports favorably Assembly Bill No. 126 (1R), with committee amendments.

Assembly Bill No. 126 (1R), as amended, establishes a temporary early retirement incentive program for certain police officers and firefighters employed by the State or by counties and municipalities which elect to adopt the program.

Under the program, the additional benefits would be available to members of the Police and Firemen's Retirement System (PFRS) who retire under that system on or after January 1, 1994 but on or before January 1, 1995. To be eligible for the incentive, employees must be 47 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement.

Employees meeting these qualifications will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

An employer, other than the State, may elect to provide the benefits by adopting a resolution and by filing a certified copy of the resolution with the Director of the Division of Pensions and Benefits before December 1, 1993. Police officers and firefighters employed by the State will automatically be eligible for the program.

The actuary for the retirement system will determine the liability for the additional service credit and pensions and for the early retirement of employees. This liability will be added to the employer's unfunded accrued liability and will be paid by the employer over the remaining time period for payment of its unfunded accrued liability.

Where the needs of the State or an employer other than the State require the services of an employee who elects to retire under this legislation, the employer may delay the effective date of the employee's retirement for up to one year.

Before an employer, other than the State, adopts the early retirement program in this bill, the employer must meet and consult with the representatives of the bargaining unit of its employees.

The bill permits the Division of Pensions and Benefits to charge up to $1,000,000 to the Police and Firemen's Retirement System Fund for the division's administrative expenses related to this early retirement program.

As amended and reported by the committee, this bill is identical to Senate Bill No. 1128 (1R) of 1992 as amended and reported by this committee on March 11, 1993.

COMMITTEE AMENDMENTS

The committee amended the bill to:

• Change the retirement period under the program from a one year period beginning five months and ending 17 months from the effective date of the act to a one year period beginning January 1, 1994 and ending January 1, 1995;

• Permit the Division of Pensions and Benefits to charge the Police and Firemen's Retirement System Fund for the up to $1,000,000 in administrative expenses

• Change section 2 of the bill so that the division will provide any county or municipality, upon its request, with an analysis of the costs of the program and with charts, tables and information to enable an employer to make a cost/savings analysis of the impact of the bill over a period of 10 fiscal years. The division will prepare a model for doing a cost/savings analysis with charts and tables for financial projections and explanatory information on how to do the analysis.

• Make additional technical changes to sections 3 and 5 of the bill.

FISCAL IMPACT

Although the Office of Legislative Services (OLS) prepared on March 2, 1993, a fiscal note on the First Reprint of this bill based on information provided by the Division of Pensions and Benefits, that fiscal note is no longer accurate because of the changes made to the bill by this committee. As of the date of this statement, the division has not provided OLS with the information necessary to develop a revised fiscal note.

The division had previously estimated that if every employer elected to participate in this program, an estimated 3,636 members of the PFRS would retire and the present value liability to the retirement system would be approximately $405.9 million. According to the division, the estimated number of PFRS members who would retire under this bill may be significantly increased due to the changes made to the bill; consequently, any previous estimate of the bill's costs and potential savings will also be significantly changed.

LEGISLATIVE FISCAL ESTIMATE TO

[FIRST REPRINT]

ASSEMBLY, No. 126

STATE OF NEW JERSEY

DATED: February 4, 1993

Assembly Bill No. 126 (1R) of 1992 establishes an early retirement incentive program for State employees enrolled in the Police and Firemen's Retirement System (PFRS) and an optional early retirement incentive program for local government employees enrolled in PFRS. Employees who are age 47 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

An employer other than the State may elect to provide the early retirement incentive by adoption of a resolution of its governing body and by filing a certified copy of the resolution with the Director of the Division of Pensions and Benefits. The employer is to submit to the division any information required to provide the benefits or to determine the liability for them. The division is to provide any county or municipal governing body, upon its request, with an analysis of the costs and savings which could be expected to result from the adoption of the program.

The actuary for the retirement system will determine the additional liability created by the early retirement incentive and this liability will be added to the employer's unfunded accrued liability and will be paid by the employer.

The bill permits the State or an employer other than the State to delay for up to one year, with the consent of the employee, the retirements of employees determined to be essential. This authorization for a delay in the retirement date does not extend the dates for qualification for benefits under this act.

The Office of Legislative Services notes that under current law PFRS members can retire at any age with 25 years of service and at age 55 with no minimum service requirement. Under special retirement provisions for members with 25 years of service, the retirement allowance (pension) is 65 percnet of final compensation plus 1.0 percent of final compensation for each year of service over 25 with a maximum benefit of 70 percent of final compensation except for those members who had 30 or more years of creditable service on June 30, 1979. Under the provisions of service retirement for members age 55 who can retire with no minimum service requirement, the retirement allowance is equal to 2.0 percent of the members' final average salary times the number of years of service. The OLS notes that almost all members of PFRS currently retire under the provisions of special retirement.

The OLS notes that due to the elective nature of this legislation for local employers it cannot estimate the number of employers who will elect to offer this incentive to employees. The OLS estimates that there are 2,452 PFRS members (State and local employees) age 47 or above with between 20 and 24 years of service who cannot retire under current law but would be eligible to retire under the provisions of this bill. The OLS further notes that there are an estimated 1,432 members (State and local employees) age 47 or above with between 25 and 29 years of service who can retire under current law (special retirement) who would receive an additional benefit under this bill.

The OLS believes that if local employers elect to offer this incentive almost every eligible employee will elect to retire because of the significant benefit enhancement, especially for those members with between 20 and 24 years of service who would then qualify for the special retirement formula of 65 percent of compensation. On the basis of all employers offering this incentive, the OLS estimates the present value cost for the 2,452 members age 47 and above with between 20 and 24 years of service at $200.6 million and the present value cost for the 1,432 members age 47 or above with between 25 and 29 years of service at $37.3 million for a total present value liability of $237.9 million. If this cost is amortized over time as part of the retirement system's normal cost, the annual contributions to fund the retirement system would increase by approximately $19.7 million annually. The annual cost would be less if the liability were funded as part of the system's accrued liability.

Although the early retirement incentive program is mandatory for State employees, the OLS has no information available to estimate the State portion of the above estimate. The OLS notes, however, that in addition to the additional pension liability, the State would have the additional liability of funding the employer-paid post retirement medical benefits for its employees. The OLS notes that the Division of Pensions and Benefits estimates the cost of husband and wife coverage in the State Health Benefits Program at $6,200 for FY 1993.

The OLS estimates that salary savings for employers, including the State, could be as high as $174.8 million if all the positions that become vacant from members retiring under the provisions of this bill remain vacant for one full year. The OLS notes that the actual salary savings are likely to be less because employers, i.e. police and fire departments and the State will probably replace senior members who retire by promoting the next highest ranking employee. The OLS estimates salary savings of $125.1 million if promotions occur but the lower-level positions (3,884) are held vacant for one full year. The OLS notes that the salary savings will be reduced if positions are filled with new employees.

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

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

FISCAL NOTE TO

[FIRST REPRINT]

ASSEMBLY, No. 126

STATE OF NEW JERSEY

DATED: March 2, 1993

Assembly Bill No. 126 (1R) of 1992 establishes an early retirement incentive program for State employees enrolled in the Police and Firemen's Retirement System (PFRS) and an optional early retirement incentive program for local government employees enrolled in PFRS. Employees who are age 47 or more years of age and have 20 or more years of service credit under PFRS as of the effective date of retirement will receive an additional five years of PFRS service credit or any lesser number of years of PFRS service credit under the retirement system as will provide the member, as of the date of retirement, with a total of not more than 30 years of PFRS service credit.

An employer other than the State may elect to provide the early retirement incentive by adoption of a resolution of its governing body and by filing a certified copy of the resolution with the Director of the Division of Pensions and Benefits. The employer is to submit to the division any information required to provide the benefits or to determine the liability for them. The division is to provide any county or municipal governing body, upon its request, with an analysis of the costs and savings which could be expected to result from the adoption of the program.

The actuary for the retirement system will determine the additional liability created by the early retirement incentive and this liability will be added to the employer's unfunded accrued liability and will be paid by the employer.

The bill permits the State or an employer other than the State to delay for up to one year, with the consent of the employee, the retirements of employees determined to be essential. This authorization for a delay in the retirement date does not extend the dates for qualification for benefits under this act.

The Division of Pensions and Benefits estimates that if every employer elected to participate in this program, an estimated 3,636 members of the PFRS would retire. The division estimates the additional present value liability to the retirement system would be approximately $405.9 million. The division states that this additional cost would be funded over the life of the system (13 years) at an additional 2.60 percent of payroll. (The State currently contributes about 11.9 percent of payroll.) The additional employer contributions would be $38.9 million beginning in FY 1996 and total $746.2 million over 13 years. The division estimates the State will be liable for about 13 percent of this additional cost, or $5.1 million in FY 1996 and local governments for 87 percent, or $33.8 million for FY 1996.

The division estimated that the replacement of senior employees with entry-level employees would result in first year (1994) salary savings of $10.6 million to the State and $70.1 million to local employers for total first year salary savings of $80.7 million. The division estimated these savings would increase in FY 1995 to $85.9 million or $11.3 million for the State and $74.7 million for local employers.

The Office of Legislative Services (OLS) concurs with the division's estimate of the number of individuals who would be eligible to participate, the number of members who would retire and the $405.9 million additional liability. The OLS disagrees with the division's estimated salary savings.

The OLS notes that under current law PFRS members can retire at any age with 25 years of service and at age 55 with no minimum service requirement. Under special retirement provisions for members with 25 years of service, the retirement allowance (pension) is 65 percent of final compensation plus 1.0 percent of final compensation for each year of service over 25 with a maximum benefit of 70 percent of final compensation, except for those members who had 30 or more years of creditable service on June 30, 1979. Under the provisions of service retirement for members age 55 who can retire with no minimum service requirement, the retirement allowance is equal to 2.0 percent of the members' final average salary times the number of years of service. The OLS notes that almost all members of PFRS currently retire under the provisions of special retirement.

The OLS notes that due to the elective nature of this legislation for local employers it cannot estimate the number of employers who will elect to offer this incentive to employees. The OLS believes that if local employers elect to offer this incentive, almost every eligible employee will elect to retire because of the significant benefit enhancement, especially for those members with between 20 and 24 years of service who would then qualify for the special retirement formula of 65 percent of compensation.

The OLS further notes that in addition to the additional pension liability, the State would have the additional liability of funding the employer-paid post retirement medical benefits for its employees. The OLS notes that the Division of Pensions and Benefits estimates the cost of husband and wife coverage in the State Health Benefits Program at $6,200 for FY 1993. Based on information provided by the division, approximately 13 percent, or 473 of the eligible members, are State employees. The cost of providing medical coverage for these retirees would be approximately $2.9 million the first year. This cost would increase annually as medical costs increase, approximately 10 percent per year, until the retirees reach age 65 and are eligible for Medicare.

The OLS notes that the division's salary savings estimate is based on replacing senior employees with average salaries of approximately $48,619 with entry-level employees earning $28,000. According to the most recent actuarial valuation of the retirement system, dated June 30, 1990, the average salary for employees with between 0 and 4 years of service (the only statistical breakdown available) is $32,200. The OLS also notes that the actual salary savings is likely to be less because employers, i.e. police and fire departments and the State, will probably replace senior members who retire by promoting the next highest ranking employee.

The OLS further notes that the actual salary savings should not be calculated on the total number of employees retiring under the provisions of this bill. The OLS notes that many of these employees would be retiring under current law and the actual savings should be calculated based on the additional retirants. The OLS estimates that at least 900 of the 3,636 eligible retirees would have retired under current law without the enhancement. After adjusting for a smaller salary differential of $14,000 and using 2,736 as the number of additional retirants, the salary savings would be $38.3 million, or $42.4 million less than the division's estimate.

The OLS notes that the first-year (FY 1994) salary savings of $38.3 million is $600,000 less than the first-year (FY 1996) additional pension contributions of $38.9 million.

The OLS also disagrees with the division's estimate of savings in future years because the division's estimate is calculated using estimated salaries for the 3,636 early retirees. As the OLS noted above, at least 900 employees would have retired in FY 1994 without the benefit enhancement and an additional 900 would retire in FY 1995 without the benefit enhancement. If you calculate the salary savings based on the additional retirements, 3,636 - 1,800 = 1,836, and a salary differential of $14,000, the salary savings for FY 1995 is $25.7 million. This differential will decrease each year as the differential between the number of retirees anticipated under current law and the number of retirees anticipated under this legislation decreases and as the replacement salaries increase.

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