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P.L. 2003, CHAPTER 108, *approved July 1, 2003*
Assembly, No. 3703 (*First Reprint*)

1 **AN ACT** concerning the funding of the Public Employees' Retirement
2 System of New Jersey ¹[and] the funding and special retirement
3 allowance of ¹ the Police and Firemen's Retirement System ¹[and]
4 ¹ amending P.L.1954, c.84 ¹, P.L.1964, c.241¹ and P.L.1944,
5 c.255 ¹and supplementing P.L.1976, c.68 (C.40A:4-45.1 et seq.)¹.

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

9
10 1. Section 24 of P.L.1954, c.84 (C.43:15A-24) is amended to read
11 as follows:

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

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

22 b. With respect to employers other than the State, upon the basis
23 of the tables recommended by the actuary which the board adopts and
24 regular interest, the actuary shall compute the amount of the accrued
25 liability of the retirement system as of March 31, 1992 under the
26 projected unit credit method, excluding the liability for pension
27 adjustment benefits for active employees funded pursuant to section
28 2 of P.L.1990, c.6 (C.43:15A-24.1), which is not already covered by
29 the assets of the retirement system, valued in accordance with the asset
30 valuation method established in this section. Using the total amount of
31 this unfunded accrued liability, the actuary shall compute the initial
32 amount of contribution which, if the contribution is increased at a
33 specific rate and paid annually for a specific period of time, will
34 amortize this liability. The State Treasurer shall determine, upon the
35 advice of the Director of the Division of Pensions and Benefits, the
36 board of trustees and the actuary, the rate of increase for the
37 contribution and the time period for full funding of this liability, which
38 shall not exceed 40 years on initial application of this section as
39 amended by this act, P.L.1994, c.62. This shall be known as the
40 "accrued liability contribution." Any increase or decrease in the

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

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly ABU committee amendments adopted June 19, 2003.

1 unfunded accrued liability as a result of actuarial losses or gains for the
2 10 valuation years following valuation year 1992 shall serve to
3 increase or decrease, respectively, the unfunded accrued liability
4 contribution. Thereafter, any increase or decrease in the unfunded
5 accrued liability as a result of actuarial losses or gains for subsequent
6 valuation years shall serve to increase or decrease, respectively, the
7 amortization period for the unfunded accrued liability, unless an
8 increase in the amortization period will cause it to exceed 30 years.
9 If an increase in the amortization period as a result of actuarial losses
10 for a valuation year would exceed 30 years, the accrued liability
11 contribution shall be computed for the valuation year in the same
12 manner provided for the computation of the initial accrued liability
13 contribution under this section.

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

45 The value of the assets to be used in the computation of the
46 contributions provided for under this section for valuation periods

1 shall be the value of the assets for the preceding valuation period
2 increased by the regular interest rate, plus the net cash flow for the
3 valuation period (the difference between the benefits and expenses
4 paid by the system and the contributions to the system) increased by
5 one half of the regular interest rate, plus 20% of the difference
6 between this expected value and the full market value of the assets as
7 of the end of the valuation period. This shall be known as the
8 "valuation assets." Notwithstanding the first sentence of this
9 paragraph, the valuation assets for the valuation period ending March
10 31, 1996 shall be the full market value of the assets as of that date and,
11 with respect to the valuation assets allocated to the State, shall include
12 the proceeds from the bonds issued pursuant to the "Pension Bond
13 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
14 to the system by the New Jersey Economic Development Authority to
15 fund the unfunded accrued liability of the system. Notwithstanding the
16 first sentence of this paragraph, the valuation assets for the valuation
17 period ending June 30, 1999 shall be the full market value of the assets
18 as of that date.

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

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

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

24 (3) the contributory group insurance premium fund, created by
25 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
26 of P.L.1960, c.79; less

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

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

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

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

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

45 (3) the contributory group insurance premium fund, created by
46 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4

1 of P.L.1960, c.79; less

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

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

26 (1) for valuation periods ending March 31, 1997 through March 31,
27 2001, to the extent possible by up to 100% of the excess valuation
28 assets allocated to the State or to the other employers, respectively;

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

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

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

38 For calendar years 1998 and 1999, the rate of contribution of
39 members of the retirement system under section 25 of P.L.1954, c.84
40 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation
41 assets and for calendar years 2000 and 2001, the rate of contribution
42 shall be reduced by 2% from excess valuation assets. Thereafter, the
43 rate of contribution of members of the retirement system under that
44 section for a calendar year shall be reduced equally with normal
45 contributions to the extent possible, but not by more than 2%, from
46 excess valuation assets if the State Treasurer determines that excess

1 valuation assets shall be used to reduce normal contributions by the
2 State and local employers for the fiscal year beginning immediately
3 prior to the calendar year, or for the calendar year for local employers
4 whose fiscal year is the calendar year, and excess valuation assets
5 above the amount necessary to fund the reduction for that calendar
6 year in the member contribution rate plus an equal reduction in the
7 normal contribution shall be available for the further reduction of
8 normal contributions, subject to the limitations prescribed by this
9 subsection.

10 If there are excess valuation assets after reductions in normal
11 contributions and member contributions as authorized in the preceding
12 paragraphs for a valuation period beginning with the valuation period
13 ending June 30, 1999, an amount of excess valuation assets not to
14 exceed the amount of the member contributions for the fiscal year in
15 which the normal contributions are payable shall be credited to the
16 benefit enhancement fund. The amount of excess valuation assets
17 credited to the benefit enhancement fund shall not exceed the present
18 value of the expected additional normal contributions attributable to
19 the provisions of P.L.2001, c.133 payable on behalf of the active
20 members over the expected working lives of the active members in
21 accordance with the tables of actuarial assumptions for the valuation
22 period. No additional excess valuation assets shall be credited to the
23 benefit enhancement fund after the maximum amount is attained.
24 Interest shall be credited to the benefit enhancement fund as provided
25 under section 33 of P.L.1954, c.84 (C.43:15A-33).

26 The normal contribution for the increased benefits for active
27 employees under P.L.2001, c.133 shall be paid from the benefit
28 enhancement fund. If assets in the benefit enhancement fund are
29 insufficient to pay the normal contribution for the increased benefits
30 for a valuation period, the State shall pay the amount of normal
31 contribution for the increased benefits not covered by assets from the
32 benefit enhancement fund.

33 c. The retirement system shall certify annually the aggregate amount
34 payable to the contingent reserve fund in the ensuing year, which
35 amount shall be equal to the sum of the amounts described in this
36 section.

37 The State Treasurer shall reduce the normal and accrued liability
38 contributions payable by employers other than the State, excluding the
39 contribution payable from the benefit enhancement fund, to a
40 percentage of the amount certified annually by the retirement system,
41 which percentage shall be: for payments due in the State fiscal year
42 ending June 30, 2005, 20%; for payments due in the State fiscal year
43 ending June 30, 2006, not more than 40%; for payments due in the
44 State fiscal year ending June 30, 2007, not more than 60%; and for
45 payments due in the State fiscal year ending June 30, 2008, not more
46 than 80%.

1 The State shall pay into the contingent reserve fund during the
2 ensuing year the amount so determined. The death benefits, payable
3 as a result of contribution by the State under the provisions of this
4 chapter upon the death of an active or retired member, shall be paid
5 from the contingent reserve fund.

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

9 (cf: P.L.2001, c.133, s.9)

10
11 ¹2. Section 16 of P.L.1964, c.241 (C.43:16A-11.1) is amended to
12 read as follows:

13 16. a. Should a member resign after having established 25 years of
14 creditable service, he may elect "special retirement," provided, that
15 such election is communicated by such member to the retirement
16 system by filing a written application, duly attested, stating at what
17 time subsequent to the execution and filing thereof he desires to be
18 retired. He shall receive, in lieu of the payment provided in section 11,
19 a retirement allowance which shall consist of:

20 (1) An annuity which shall be the actuarial equivalent of his
21 aggregate contributions, and

22 (2) A pension in the amount which, when added to the member's
23 annuity, will provide a total retirement allowance of 65% of his final
24 compensation, plus 1% of his final compensation multiplied by the
25 number of years of creditable service over 25 but not over 30; or,
26 beginning in the fiscal year immediately following the adoption of the
27 valuation report by the retirement system board of trustees in which
28 the funded level is in excess of 104%, a pension in the amount which,
29 when added to the member's annuity, will provide a total retirement
30 allowance of 70% of final compensation, plus 1% of final
31 compensation multiplied by the number of years of creditable service
32 over 25 but not over 30; provided, however, that any member who has
33 earned, prior to July 1, 1979, more than 30 years of creditable service,
34 shall receive an additional 1% of his final compensation for each year
35 of his creditable service over 30.

36 The board of trustees shall retire him at the time specified or at such
37 other time within one month after the date so specified as the board
38 finds advisable.

39 Upon the receipt of proper proofs of the death of such a retired
40 member, there shall be paid to his beneficiary an amount equal to
41 one-half of the final compensation received by the member.

42 b. The "special retirement" allowance payable under subsection a.
43 of this section to any person who retired under the retirement system
44 prior to December 20, 1989 shall be increased by an amount equal to
45 5% of the person's final compensation or by such lesser amount as
46 would, if added to the allowance payable at the time of retirement,

1 provide a total retirement allowance of 70% of final compensation,
2 except that in the case of such a retirant who retired on or after July
3 1, 1979 and had earned prior to that date more than 30 years of
4 creditable service, the amount of the increase shall be equal to 5% of
5 the person's final compensation irrespective of the total retirement
6 allowance which such an increase would provide. The provisions of
7 this subsection shall not be construed either to require a reduction in
8 the retirement allowance payable to any retirant or to provide for the
9 payment of any adjustment in such an allowance with respect to any
10 period of time prior to the first day of the month following that
11 effective date.¹

12 (cf: P.L.2001, c.4, s.2)

13

14 ¹[2.] 3.¹ Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended
15 to read as follows:

16 15. (1) The contributions required for the support of the retirement
17 system shall be made by members and their employers.

18 (2) The uniform percentage contribution rate for members shall be
19 8.5% of compensation.

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

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

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

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

31 (7) Each employer shall cause to be deducted from the salary of
32 each member the percentage of earnable compensation prescribed in
33 subsection (2) of this section. To facilitate the making of deductions,
34 the retirement system may modify the amount of deduction required
35 of any member by an amount not to exceed 1/10 of 1% of the
36 compensation upon which the deduction is based.

37 (8) The deductions provided for herein shall be made
38 notwithstanding that the minimum salary provided for by law for any
39 member shall be reduced thereby. Every member shall be deemed to
40 consent and agree to the deductions made and provided for herein, and
41 payment of salary or compensation less said deduction shall be a full
42 and complete discharge and acquittance of all claims and demands
43 whatsoever for the service rendered by such person during the period
44 covered by such payment, except as to the benefits provided under this
45 act. The chief fiscal officer of each employer shall certify to the
46 retirement system in such manner as the retirement system may

1 prescribe, the amounts deducted; and when deducted shall be paid into
2 said annuity savings fund, and shall be credited to the individual
3 account of the member from whose salary said deduction was made.

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

33 With respect to the State, upon the basis of the tables recommended
34 by the actuary which the board adopts and regular interest, the actuary
35 shall annually determine if there is an amount of the accrued liability,
36 computed under the projected unit credit method, which is not already
37 covered by the assets of the retirement system, valued in accordance
38 with the asset valuation method established in this section. This shall
39 be known as the "unfunded accrued liability." If there was no
40 unfunded accrued liability for the valuation period immediately
41 preceding the current valuation period, the actuary, using the total
42 amount of this unfunded accrued liability, shall compute the initial
43 amount of contribution which, if the contribution is increased at a
44 specific rate and paid annually for a specific period of time, will
45 amortize this liability. The State Treasurer shall determine, upon the
46 advice of the Director of the Division of Pensions and Benefits, the

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

17 The value of the assets to be used in the computation of the
18 contributions provided for under this section for valuation periods
19 shall be the value of the assets for the preceding valuation period
20 increased by the regular interest rate, plus the net cash flow for the
21 valuation period (the difference between the benefits and expenses
22 paid by the system and the contributions to the system) increased by
23 one half of the regular interest rate, plus 20% of the difference
24 between this expected value and the full market value of the assets as
25 of the end of the valuation period. This shall be known as the
26 "valuation assets." Notwithstanding the first sentence of this
27 paragraph, the valuation assets for the valuation period ending June
28 30, 1995 shall be the full market value of the assets as of that date and,
29 with respect to the valuation assets allocated to the State, shall include
30 the proceeds from the bonds issued pursuant to the "Pension Bond
31 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
32 to the system by the New Jersey Economic Development Authority to
33 fund the unfunded accrued liability of the system. Notwithstanding the
34 first sentence of this paragraph, the percentage of the difference
35 between the expected value and the full market value of the assets to
36 be added to the expected value of the assets for the valuation period
37 ending June 30, 1998 for the State shall be 100% and for other
38 employers shall be 57% plus such additional percentage as is
39 equivalent to \$150,000,000. Notwithstanding the first sentence of this
40 paragraph, the amount of the difference between the expected value
41 and the full market value of the assets to be added to the expected
42 value of the assets for the valuation period ending June 30, 1999 shall
43 include an additional amount of the market value of the assets
44 sufficient to fund (1) the unfunded accrued liability for the
45 supplementary "special retirement" allowances provided under
46 subsection b. of section 16 of P.L.1964, c.241 (C.43:16A-11.1) and

1 (2) the unfunded accrued liability for the full credit toward benefits
2 under the retirement system for service credited in the Public
3 Employees' Retirement System and transferred pursuant to section 1
4 of P.L.1993, c.247 (C.43:16A-3.8) and the reimbursement of the cost
5 of any credit purchase pursuant to section 3 of P.L.1993, c.247
6 (C.43:16A-3.10) provided under section 1 of P.L.2001, c.201
7 (C.43:16A-3.14).

8 "Excess valuation assets" means, with respect to the valuation assets
9 allocated to the State, the valuation assets allocated to the State for a
10 valuation period less the actuarial accrued liability of the State for the
11 valuation period, and beginning with the valuation period ending June
12 30, 1998, less the present value of the expected additional normal cost
13 contributions attributable to the provisions of P.L.1999, c.428
14 (C.43:16A-15.8 et al.) payable on behalf of the active members
15 employed by the State as of the valuation period over the expected
16 working lives of the active members in accordance with the tables of
17 actuarial assumptions applicable to the valuation period ¹, and less the
18 present value of the expected additional normal cost contributions
19 attributable to the provisions of P.L. , c. (now pending before the
20 Legislature as this bill) as amending section 16 of P.L.1964, c.241
21 (C.43:16A-11.1) payable on behalf of the active members employed by
22 the State as of the valuation period over the expected working lives of
23 the active members in accordance with the tables of actuarial
24 assumptions applicable to the valuation period¹, if the sum is greater
25 than zero. "Excess valuation assets" means, with respect to the
26 valuation assets allocated to other employers, the valuation assets
27 allocated to the other employers for a valuation period less the
28 actuarial accrued liability of the other employers for the valuation
29 period, excluding the unfunded accrued liability for early retirement
30 incentive benefits pursuant to P.L.1993, c.99 for the other employers,
31 and beginning with the valuation period ending June 30, 1998, less the
32 present value of the expected additional normal cost contributions
33 attributable to the provisions of P.L.1999, c.428 (C.43:16A-15.8 et
34 al.) payable on behalf of the active members employed by other
35 employers as of the valuation period over the expected working lives
36 of the active members in accordance with the tables of actuarial
37 assumptions applicable to the valuation period ¹, and less the present
38 value of the expected additional normal cost contributions attributable
39 to the provisions of P.L. , c. (now pending before the Legislature
40 as this bill) as amending section 16 of P.L.1964, c.241 (C.43:16A-
41 11.1) payable on behalf of the active members employed by other
42 employers as of the valuation period over the expected working lives
43 of the active members in accordance with the tables of actuarial
44 assumptions applicable to the valuation period¹, if the sum is greater
45 than zero.

46 If there are excess valuation assets allocated to the State or to the

1 other employers for the valuation period ending June 30, 1995, the
2 normal contributions payable by the State or by the other employers
3 for the valuation periods ending June 30, 1995, and June 30, 1996
4 which have not yet been paid to the retirement system shall be reduced
5 to the extent possible by the excess valuation assets allocated to the
6 State or to the other employers, respectively, provided that with
7 respect to the excess valuation assets allocated to the State, the
8 General Fund balances that would have been paid to the retirement
9 system except for this provision shall first be allocated as State aid to
10 public schools to the extent that additional sums are required to
11 comply with the May 14, 1997 decision of the New Jersey Supreme
12 Court in Abbott v. Burke.

13 If there are excess valuation assets allocated to the other employers
14 for the valuation period ending June 30, 1998, the accrued liability
15 contributions payable by the other employers for the valuation period
16 ending June 30, 1997 shall be reduced to the extent possible by the
17 excess valuation assets allocated to the other employers.

18 If there are excess valuation assets allocated to the State or to the
19 other employers for a valuation period ending after June 30, 1998, the
20 State Treasurer may reduce the normal contribution payable by the
21 State or by other employers for the next valuation period as follows:

22 (1) for valuation periods ending June 30, 1996 through June 30,
23 2000, to the extent possible by up to 100% of the excess valuation
24 assets allocated to the State or to the other employers, respectively;

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

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

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

34 Notwithstanding the discretion provided to the State Treasurer in the
35 previous paragraph to reduce the amount of the normal contribution
36 payable by employers other than the State, the State Treasurer shall
37 reduce the amount of the normal contribution payable by employers
38 other than the State by \$150,000,000 in the aggregate for the
39 valuation period ending June 30, 1998, and then the State Treasurer
40 may reduce further pursuant to the provisions of the previous
41 paragraph the normal contribution payable by such employers for that
42 valuation period.

43 ¹As of the valuation report in which the funded level is in excess of
44 104%, an amount equal to the present value of the future normal
45 contributions for the benefits provided by P.L. , c. (now pending
46 before the Legislature as this bill) as amending section 16 of P.L.1964,

1 c.241 (C.43:16A-11.1), shall be credited to the benefit enhancement
2 fund. If there are excess valuation assets after reductions in normal
3 contributions as authorized in the preceding paragraphs, for a
4 valuation period beginning with the valuation period in which the
5 benefits provided by section 16 of P.L.1964, c.241 (C.43:16A-11.1),
6 as amended by P.L. , c. (now pending before the Legislature as
7 this bill) apply, an amount of excess valuation assets not to exceed the
8 amount of the member contributions for the fiscal year in which the
9 normal contributions are payable shall be credited to the benefit
10 enhancement fund. The amount of excess valuation assets credited to
11 the benefit enhancement fund shall not exceed the present value of the
12 expected additional normal and accrued liability contributions
13 attributable to the provisions of section 16 of P.L.1964, c.241
14 (C.43:16A-11.1), as amended by P.L. , c. (now pending before the
15 Legislature as this bill), payable on behalf of the active members over
16 the expected working lives of the active members in accordance with
17 the tables of actuarial assumptions for the valuation period. No
18 additional excess valuation assets shall be credited to the benefit
19 enhancement fund after the maximum amount is attained. Interest
20 shall be credited to the benefit enhancement fund.

21 The normal and accrued liability contributions for the increased
22 benefits for active employees under section 16 of P.L.1964, c.241
23 (C.43:16A-11.1), as amended by P.L. , c. (now pending before the
24 Legislature as this bill), shall be paid from the benefit enhancement
25 fund. If assets in the benefit enhancement fund are insufficient to pay
26 the normal and accrued liability contributions for the increased benefits
27 for a valuation period, the retirement system shall pay the amount of
28 normal and accrued liability contributions for the increased benefits
29 not covered by assets from the benefit enhancement fund.¹

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

35 Notwithstanding the preceding sentence, the normal and accrued
36 liability contributions to be included in the budget of and paid by the
37 employer other than the State shall be as follows: for the payment due
38 in the State fiscal year ending on June 30, 2004, 20% of the amount
39 certified by the retirement system; for the payment due in the State
40 fiscal year ending on June 30, 2005, a percentage of the amount
41 certified by the retirement system as the State Treasurer shall
42 determine but not more than 40%; for the payment due in the State
43 fiscal year ending on June 30, 2006, a percentage of the amount
44 certified by the retirement system as the State Treasurer shall
45 determine but not more than 60%; and for the payment due in the
46 State fiscal year ending on June 30, 2007, a percentage of the amount

1 certified by the retirement system as the State Treasurer shall
2 determine but not more than 80%.

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

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

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

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

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

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

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

41 (15) If the valuation assets are insufficient to fund the normal and
42 accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-15.8
43 et al.) as provided hereinabove, the normal and unfunded accrued
44 liability contributions required to fund these costs for the State and
45 other employers shall be paid by the State.

46 (16) The savings realized as a result of the amendments to this

1 section by P.L.2001, c.44 in the payment of normal contributions
2 computed by the actuary for the valuation periods ending June 30,
3 1998 for employers other than the State shall be used solely and
4 exclusively by a county or municipality for the purpose of reducing the
5 amount that is required to be raised by the local property tax levy by
6 the county for county purposes or by the municipality for municipal
7 purposes, as appropriate. The Director of the Division of Local
8 Government Services in the Department of Community Affairs shall
9 certify for each year that each county or municipality has complied
10 with the requirements set forth herein. If the director finds that a
11 county or municipality has not used the savings solely and exclusively
12 for the purpose of reducing the amount that is required to be raised by
13 the local property tax levy by the county for county purposes or by the
14 municipality for municipal purposes, as appropriate, the director shall
15 direct the county or municipal governing body, as appropriate, to
16 make corrections to its budget.

17 (cf: P.L.2001, c.201, s.2)

18

19 ¹⁴. Section 16 of P.L.1944, c.255 (C.43:16A-16) is amended to
20 read as follows:

21 16. (1) All the assets of the retirement system shall be credited
22 according to the purpose for which they are held to one of ~~four~~ five
23 funds, namely, the annuity savings fund, the pension accumulation
24 fund, the retirement reserve fund, ~~and~~ the special reserve fund and
25 the benefit enhancement fund.

26 (2) The annuity savings fund shall be a fund in which shall be
27 credited accumulated contributions by members or on their behalf to
28 provide for their allowances. The aggregate contributions of a
29 member withdrawn by him or paid to his estate or his designated
30 beneficiary in event of his death as provided in this act shall be paid
31 from the annuity savings fund. Upon the retirement of a member
32 where the aggregate contributions of the member are to be provided
33 in the form of an annuity, the aggregate contributions of the member
34 shall be transferred from the annuity savings fund to the retirement
35 reserve fund.

36 (3) The pension accumulation fund shall be the fund in which shall
37 be credited contributions made by employers. Upon the death of a
38 member either before or after retirement any lump sum benefit payable
39 shall be charged to the pension accumulation fund. Upon the
40 retirement or death of a member the reserve of any pension payable to
41 or on his account shall be transferred to the retirement reserve fund.
42 The retirement system at the end of each fiscal year shall allow
43 interest on the balance of the retirement reserve fund as of the
44 beginning of said fiscal year at the regular interest rate applicable
45 thereto to cover the interest creditable for the year. The amount so
46 allowed shall be due and payable and shall be credited annually. All

1 other income received on the securities, funds and investments of the
 2 retirement system shall be credited to the pension accumulation fund,
 3 except as provided by subsection (5) of this section. The retirement
 4 system, upon the advice of the actuary, shall transfer to and from the
 5 pension accumulation fund any surplus or deficit in the retirement
 6 reserve fund.

7 (4) The retirement reserve fund shall be the fund from which all
 8 retirement allowances and benefits in lieu thereof shall be paid. If the
 9 retirement allowance of a member who has been retired is
 10 subsequently canceled, the appropriate reserve shall be transferred to
 11 the pension accumulation fund and the annuity savings fund.

12 (5) The special reserve fund shall be the fund to which any earnings
 13 in excess of the amounts annually allowed under the provisions of
 14 subsection (3) of this section shall be transferred. No additional
 15 amounts shall be credited to the special reserve fund at any time when
 16 the total accumulations in such fund equal 1% of the book value of the
 17 investments of the retirement system. In this event, any such excess
 18 shall be credited to the pension accumulation fund. All losses from the
 19 sale of securities shall be charged against the special reserve fund. The
 20 special reserve fund shall be considered for valuation purposes by the
 21 actuary as an asset of the retirement system.¹

22 (cf: P.L.1971, c.175, s.9)

23

24 ^{15.} (New section) In addition to the exceptions to the limits on
 25 increases to municipal appropriations set forth in section 3 of
 26 P.L.1976, c.68 (C.40A:4-45.3) and to the county tax levy set forth in
 27 section 4 of P.L.1976, c.68 (C.40A:4-45.4), appropriations that
 28 represent expenditures made by a municipality or county for the
 29 purpose of funding normal and accrued liability contributions to the
 30 Public Employees' Retirement System of New Jersey due in the State
 31 fiscal years 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09, or to
 32 the Police and Firemen's Retirement System due in the State fiscal
 33 years 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08, shall be
 34 exempt from the limits on increases to municipal appropriations and to
 35 the limits on increases to the county tax levy in county budgets,
 36 respectively, for the local budget year in which those contributions are
 37 due.¹

38

39 ¹[3.] 6.¹ This act shall take effect immediately.

40

41

42

43 Adjusts local employers' contributions to PERS and PFRS over five
 44 years; provides exemption from municipal and county "cap" limitation;
 45 creates fund for certain excess assets to enhance PFRS special
 46 retirement.

ASSEMBLY, No. 3703

STATE OF NEW JERSEY 210th LEGISLATURE

INTRODUCED JUNE 12, 2003

Sponsored by:

Assemblyman ALBIO SIRES

District 33 (Hudson)

Assemblyman JOSEPH CRYAN

District 20 (Union)

Assemblyman NEIL M. COHEN

District 20 (Union)

SYNOPSIS

Phases in local employers' payments to PERS and PFRS over five years.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 6/13/2003)

A3703 SIRES, CRYAN

2

1 AN ACT concerning the funding of the Public Employees' Retirement
2 System of New Jersey and the Police and Firemen's Retirement
3 System and amending P.L.1954, c.84 and P.L.1944, c.255.

4

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

7

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

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

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

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

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

Matter underlined thus is new matter.

1 valuation years shall serve to increase or decrease, respectively, the
2 amortization period for the unfunded accrued liability, unless an
3 increase in the amortization period will cause it to exceed 30 years.
4 If an increase in the amortization period as a result of actuarial losses
5 for a valuation year would exceed 30 years, the accrued liability
6 contribution shall be computed for the valuation year in the same
7 manner provided for the computation of the initial accrued liability
8 contribution under this section.

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

40 The value of the assets to be used in the computation of the
41 contributions provided for under this section for valuation periods
42 shall be the value of the assets for the preceding valuation period
43 increased by the regular interest rate, plus the net cash flow for the
44 valuation period (the difference between the benefits and expenses
45 paid by the system and the contributions to the system) increased by
46 one half of the regular interest rate, plus 20% of the difference

1 between this expected value and the full market value of the assets as
2 of the end of the valuation period. This shall be known as the
3 "valuation assets." Notwithstanding the first sentence of this
4 paragraph, the valuation assets for the valuation period ending March
5 31, 1996 shall be the full market value of the assets as of that date and,
6 with respect to the valuation assets allocated to the State, shall include
7 the proceeds from the bonds issued pursuant to the "Pension Bond
8 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
9 to the system by the New Jersey Economic Development Authority to
10 fund the unfunded accrued liability of the system. Notwithstanding the
11 first sentence of this paragraph, the valuation assets for the valuation
12 period ending June 30, 1999 shall be the full market value of the assets
13 as of that date.

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

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

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

19 (3) the contributory group insurance premium fund, created by
20 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
21 of P.L.1960, c.79; less

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

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

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

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

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

40 (3) the contributory group insurance premium fund, created by
41 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
42 of P.L.1960, c.79; less

43 (4) the present value of the projected total normal cost for pension
44 adjustment benefits in excess of the projected total phased-in normal
45 cost for pension adjustment benefits for the other employers
46 authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full

1 phase-in period, determined in the manner prescribed for the
2 determination and amortization of the unfunded accrued liability of the
3 system, if the sum of the foregoing items is greater than zero.

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

21 (1) for valuation periods ending March 31, 1997 through March 31,
22 2001, to the extent possible by up to 100% of the excess valuation
23 assets allocated to the State or to the other employers, respectively;

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

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

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

33 For calendar years 1998 and 1999, the rate of contribution of
34 members of the retirement system under section 25 of P.L.1954, c.84
35 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation
36 assets and for calendar years 2000 and 2001, the rate of contribution
37 shall be reduced by 2% from excess valuation assets. Thereafter, the
38 rate of contribution of members of the retirement system under that
39 section for a calendar year shall be reduced equally with normal
40 contributions to the extent possible, but not by more than 2%, from
41 excess valuation assets if the State Treasurer determines that excess
42 valuation assets shall be used to reduce normal contributions by the
43 State and local employers for the fiscal year beginning immediately
44 prior to the calendar year, or for the calendar year for local employers
45 whose fiscal year is the calendar year, and excess valuation assets
46 above the amount necessary to fund the reduction for that calendar

1 year in the member contribution rate plus an equal reduction in the
2 normal contribution shall be available for the further reduction of
3 normal contributions, subject to the limitations prescribed by this
4 subsection.

5 If there are excess valuation assets after reductions in normal
6 contributions and member contributions as authorized in the preceding
7 paragraphs for a valuation period beginning with the valuation period
8 ending June 30, 1999, an amount of excess valuation assets not to
9 exceed the amount of the member contributions for the fiscal year in
10 which the normal contributions are payable shall be credited to the
11 benefit enhancement fund. The amount of excess valuation assets
12 credited to the benefit enhancement fund shall not exceed the present
13 value of the expected additional normal contributions attributable to
14 the provisions of P.L.2001, c.133 payable on behalf of the active
15 members over the expected working lives of the active members in
16 accordance with the tables of actuarial assumptions for the valuation
17 period. No additional excess valuation assets shall be credited to the
18 benefit enhancement fund after the maximum amount is attained.
19 Interest shall be credited to the benefit enhancement fund as provided
20 under section 33 of P.L.1954, c.84 (C.43:15A-33).

21 The normal contribution for the increased benefits for active
22 employees under P.L.2001, c.133 shall be paid from the benefit
23 enhancement fund. If assets in the benefit enhancement fund are
24 insufficient to pay the normal contribution for the increased benefits
25 for a valuation period, the State shall pay the amount of normal
26 contribution for the increased benefits not covered by assets from the
27 benefit enhancement fund.

28 c. The retirement system shall certify annually the aggregate amount
29 payable to the contingent reserve fund in the ensuing year, which
30 amount shall be equal to the sum of the amounts described in this
31 section.

32 The State Treasurer shall reduce the normal and accrued liability
33 contributions payable by employers other than the State, excluding the
34 contribution payable from the benefit enhancement fund, to a
35 percentage of the amount certified annually by the retirement system,
36 which percentage shall be: for payments due in the State fiscal year
37 ending June 30, 2005, 20%; for payments due in the State fiscal year
38 ending June 30, 2006, not more than 40%; for payments due in the
39 State fiscal year ending June 30, 2007, not more than 60%; and for
40 payments due in the State fiscal year ending June 30, 2008, not more
41 than 80%.

42 The State shall pay into the contingent reserve fund during the
43 ensuing year the amount so determined. The death benefits, payable
44 as a result of contribution by the State under the provisions of this
45 chapter upon the death of an active or retired member, shall be paid
46 from the contingent reserve fund.

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

4 (cf: P.L.2001, c.133, s.9)

5
6 2. Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended to read
7 as follows:

8 15. (1) The contributions required for the support of the retirement
9 system shall be made by members and their employers.

10 (2) The uniform percentage contribution rate for members shall be
11 8.5% of compensation.

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

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

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

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

23 (7) Each employer shall cause to be deducted from the salary of
24 each member the percentage of earnable compensation prescribed in
25 subsection (2) of this section. To facilitate the making of deductions,
26 the retirement system may modify the amount of deduction required
27 of any member by an amount not to exceed 1/10 of 1% of the
28 compensation upon which the deduction is based.

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

42 (9) With respect to employers other than the State, upon the basis
43 of the tables recommended by the actuary which the board adopts and
44 regular interest, the actuary shall compute the amount of the accrued
45 liability as of June 30, 1991 under the projected unit credit method,
46 which is not already covered by the assets of the retirement system,

1 valued in accordance with the asset valuation method established in
2 this section. Using the total amount of this unfunded accrued liability,
3 the actuary shall compute the initial amount of contribution which, if
4 the contribution is increased at a specific rate and paid annually for a
5 specific period of time, will amortize this liability. The State Treasurer
6 shall determine, upon the advice of the Director of the Division of
7 Pensions and Benefits, the board of trustees and the actuary, the rate
8 of increase for the contribution and the time period for full funding of
9 this liability, which shall not exceed 40 years on initial application of
10 this section as amended by this act, P.L.1994, c.62. This shall be
11 known as the "accrued liability contribution." Any increase or
12 decrease in the unfunded accrued liability as a result of actuarial losses
13 or gains for the 10 valuation years following valuation year 1991 shall
14 serve to increase or decrease, respectively, the unfunded accrued
15 liability contribution. Thereafter, any increase or decrease in the
16 unfunded accrued liability as a result of actuarial losses or gains for
17 subsequent valuation years shall serve to increase or decrease,
18 respectively, the amortization period for the unfunded accrued liability,
19 unless an increase in the amortization period will cause it to exceed 30
20 years. If an increase in the amortization period as a result of actuarial
21 losses for a valuation year would exceed 30 years, the accrued liability
22 contribution shall be computed for the valuation year in the same
23 manner provided for the computation of the initial accrued liability
24 contribution under this section.

25 With respect to the State, upon the basis of the tables recommended
26 by the actuary which the board adopts and regular interest, the actuary
27 shall annually determine if there is an amount of the accrued liability,
28 computed under the projected unit credit method, which is not already
29 covered by the assets of the retirement system, valued in accordance
30 with the asset valuation method established in this section. This shall
31 be known as the "unfunded accrued liability." If there was no
32 unfunded accrued liability for the valuation period immediately
33 preceding the current valuation period, the actuary, using the total
34 amount of this unfunded accrued liability, shall compute the initial
35 amount of contribution which, if the contribution is increased at a
36 specific rate and paid annually for a specific period of time, will
37 amortize this liability. The State Treasurer shall determine, upon the
38 advice of the Director of the Division of Pensions and Benefits, the
39 board of trustees and the actuary, the rate of increase for the
40 contribution and the time period for full funding of this liability, which
41 shall not exceed 30 years. This shall be known as the "accrued liability
42 contribution." Thereafter, any increase or decrease in the unfunded
43 accrued liability as a result of actuarial losses or gains for subsequent
44 valuation years shall serve to increase or decrease, respectively, the
45 amortization period for the unfunded accrued liability, unless an
46 increase in the amortization period will cause it to exceed 30 years.

1 If an increase in the amortization period as a result of actuarial losses
2 for a valuation year would exceed 30 years, the accrued liability
3 contribution shall be computed for the valuation year in the same
4 manner provided for the computation of the initial accrued liability
5 contribution under this section. The State may pay all or any portion
6 of its unfunded accrued liability under the retirement system from any
7 source of funds legally available for the purpose, including, without
8 limitation, the proceeds of bonds authorized by law for this purpose.

9 The value of the assets to be used in the computation of the
10 contributions provided for under this section for valuation periods
11 shall be the value of the assets for the preceding valuation period
12 increased by the regular interest rate, plus the net cash flow for the
13 valuation period (the difference between the benefits and expenses
14 paid by the system and the contributions to the system) increased by
15 one half of the regular interest rate, plus 20% of the difference
16 between this expected value and the full market value of the assets as
17 of the end of the valuation period. This shall be known as the
18 "valuation assets." Notwithstanding the first sentence of this
19 paragraph, the valuation assets for the valuation period ending June
20 30, 1995 shall be the full market value of the assets as of that date and,
21 with respect to the valuation assets allocated to the State, shall include
22 the proceeds from the bonds issued pursuant to the "Pension Bond
23 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
24 to the system by the New Jersey Economic Development Authority to
25 fund the unfunded accrued liability of the system. Notwithstanding the
26 first sentence of this paragraph, the percentage of the difference
27 between the expected value and the full market value of the assets to
28 be added to the expected value of the assets for the valuation period
29 ending June 30, 1998 for the State shall be 100% and for other
30 employers shall be 57% plus such additional percentage as is
31 equivalent to \$150,000,000. Notwithstanding the first sentence of this
32 paragraph, the amount of the difference between the expected value
33 and the full market value of the assets to be added to the expected
34 value of the assets for the valuation period ending June 30, 1999 shall
35 include an additional amount of the market value of the assets
36 sufficient to fund (1) the unfunded accrued liability for the
37 supplementary "special retirement" allowances provided under
38 subsection b. of section 16 of P.L.1964, c.241 (C.43:16A-11.1) and
39 (2) the unfunded accrued liability for the full credit toward benefits
40 under the retirement system for service credited in the Public
41 Employees' Retirement System and transferred pursuant to section 1
42 of P.L.1993, c.247 (C.43:16A-3.8) and the reimbursement of the cost
43 of any credit purchase pursuant to section 3 of P.L.1993, c.247
44 (C.43:16A-3.10) provided under section 1 of P.L.2001, c.201
45 (C.43:16A-3.14).

46 "Excess valuation assets" means, with respect to the valuation assets

1 allocated to the State, the valuation assets allocated to the State for a
2 valuation period less the actuarial accrued liability of the State for the
3 valuation period, and beginning with the valuation period ending June
4 30, 1998, less the present value of the expected additional normal cost
5 contributions attributable to the provisions of P.L.1999, c.428
6 (C.43:16A-15.8 et al.) payable on behalf of the active members
7 employed by the State as of the valuation period over the expected
8 working lives of the active members in accordance with the tables of
9 actuarial assumptions applicable to the valuation period, if the sum is
10 greater than zero. "Excess valuation assets" means, with respect to
11 the valuation assets allocated to other employers, the valuation assets
12 allocated to the other employers for a valuation period less the
13 actuarial accrued liability of the other employers for the valuation
14 period, excluding the unfunded accrued liability for early retirement
15 incentive benefits pursuant to P.L.1993, c.99 for the other employers,
16 and beginning with the valuation period ending June 30, 1998, less the
17 present value of the expected additional normal cost contributions
18 attributable to the provisions of P.L.1999, c.428 (C.43:16A-15.8 et
19 al.) payable on behalf of the active members employed by other
20 employers as of the valuation period over the expected working lives
21 of the active members in accordance with the tables of actuarial
22 assumptions applicable to the valuation period, if the sum is greater
23 than zero.

24 If there are excess valuation assets allocated to the State or to the
25 other employers for the valuation period ending June 30, 1995, the
26 normal contributions payable by the State or by the other employers
27 for the valuation periods ending June 30, 1995, and June 30, 1996
28 which have not yet been paid to the retirement system shall be reduced
29 to the extent possible by the excess valuation assets allocated to the
30 State or to the other employers, respectively, provided that with
31 respect to the excess valuation assets allocated to the State, the
32 General Fund balances that would have been paid to the retirement
33 system except for this provision shall first be allocated as State aid to
34 public schools to the extent that additional sums are required to
35 comply with the May 14, 1997 decision of the New Jersey Supreme
36 Court in *Abbott v. Burke*.

37 If there are excess valuation assets allocated to the other employers
38 for the valuation period ending June 30, 1998, the accrued liability
39 contributions payable by the other employers for the valuation period
40 ending June 30, 1997 shall be reduced to the extent possible by the
41 excess valuation assets allocated to the other employers.

42 If there are excess valuation assets allocated to the State or to the
43 other employers for a valuation period ending after June 30, 1998, the
44 State Treasurer may reduce the normal contribution payable by the
45 State or by other employers for the next valuation period as follows:

46 (1) for valuation periods ending June 30, 1996 through June 30,

1 2000, to the extent possible by up to 100% of the excess valuation
2 assets allocated to the State or to the other employers, respectively;
3 (2) for the valuation period ending June 30, 2001, to the extent
4 possible by up to 84% of the excess valuation assets allocated to the
5 State or to the other employers, respectively;
6 (3) for the valuation period ending June 30, 2002, to the extent
7 possible by up to 68% of the excess valuation assets allocated to the
8 State or to the other employers, respectively; and
9 (4) for valuation periods ending on or after June 30, 2003, to the
10 extent possible by up to 50% of the excess valuation assets allocated
11 to the State or to the other employers, respectively.

12 Notwithstanding the discretion provided to the State Treasurer in the
13 previous paragraph to reduce the amount of the normal contribution
14 payable by employers other than the State, the State Treasurer shall
15 reduce the amount of the normal contribution payable by employers
16 other than the State by \$150,000,000 in the aggregate for the
17 valuation period ending June 30, 1998, and then the State Treasurer
18 may reduce further pursuant to the provisions of the previous
19 paragraph the normal contribution payable by such employers for that
20 valuation period.

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

26 Notwithstanding the preceding sentence, the normal and accrued
27 liability contributions to be included in the budget of and paid by the
28 employer other than the State shall be as follows: for the payment due
29 in the State fiscal year ending on June 30, 2004, 20% of the amount
30 certified by the retirement system; for the payment due in the State
31 fiscal year ending on June 30, 2005, a percentage of the amount
32 certified by the retirement system as the State Treasurer shall
33 determine but not more than 40%; for the payment due in the State
34 fiscal year ending on June 30, 2006, a percentage of the amount
35 certified by the retirement system as the State Treasurer shall
36 determine but not more than 60%; and for the payment due in the
37 State fiscal year ending on June 30, 2007, a percentage of the amount
38 certified by the retirement system as the State Treasurer shall
39 determine but not more than 80%.

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

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

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

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

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

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

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

32 (15) If the valuation assets are insufficient to fund the normal and
33 accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-15.8
34 et al.) as provided hereinabove, the normal and unfunded accrued
35 liability contributions required to fund these costs for the State and
36 other employers shall be paid by the State.

37 (16) The savings realized as a result of the amendments to this
38 section by P.L.2001, c.44 in the payment of normal contributions
39 computed by the actuary for the valuation periods ending June 30,
40 1998 for employers other than the State shall be used solely and
41 exclusively by a county or municipality for the purpose of reducing the
42 amount that is required to be raised by the local property tax levy by
43 the county for county purposes or by the municipality for municipal
44 purposes, as appropriate. The Director of the Division of Local
45 Government Services in the Department of Community Affairs shall
46 certify for each year that each county or municipality has complied

1 with the requirements set forth herein. If the director finds that a
2 county or municipality has not used the savings solely and exclusively
3 for the purpose of reducing the amount that is required to be raised by
4 the local property tax levy by the county for county purposes or by the
5 municipality for municipal purposes, as appropriate, the director shall
6 direct the county or municipal governing body, as appropriate, to
7 make corrections to its budget.

8 (cf: P.L.2001, c.201, s.2)

9

10 3. This act shall take effect immediately.

11

12

13

STATEMENT

14

15 To provide budget relief to local employers while waiting for the
16 investment yield on pension funds to return to more normal levels, this
17 bill phases in the required payments by local employers into the Public
18 Employees' Retirement System (PERS) due in State fiscal years 2005
19 through 2008 and into the Police and Firemen's Retirement System
20 (PFRS) due in State fiscal years 2004 through 2007. The unpaid
21 portions of the required payments will become part of each system's
22 unfunded accrued liability to be paid over time.

23 Specifically, the bill provides that the State Treasurer will reduce
24 local employer PERS normal and accrued liability contributions to be
25 a percentage of the amount certified annually by PERS: 20% for
26 payments due in State fiscal year 2005; not more than 40% for
27 payments due in State fiscal year 2006; not more than 60% for
28 payments due in State fiscal year 2007; and not more than 80% for
29 payments due in State fiscal year 2008. Local employer PFRS normal
30 and accrued liability contributions will be 20% of the amount certified
31 by the retirement system for payments due in State fiscal year 2004
32 and thereafter a percentage of the amount certified by the retirement
33 system as the State Treasurer will determine, but not more than 40%
34 for payments due in State fiscal year 2005, not more than 60% for
35 payments due in State fiscal year 2006, and not more than 80% for
36 payments due in State fiscal year 2007.

ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3703

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: JUNE 19, 2003

The Assembly Budget Committee reports favorably Assembly Bill No. 3703, with committee amendments.

Assembly Bill No. 3703, as amended, reduces for four years the pension contributions that local employers must make to the Public Employees' Retirement System of New Jersey (PERS) and the Police and Firemen's Retirement System (PFRS).

The PERS and PFRS, like the other State-administered retirement systems, are funded on an actuarial reserve basis. An actuary for each system annually projects that system's overall liability for benefits to members, retirees and their beneficiaries. The actuary then sets off against this projected liability the system's assets on hand, and its anticipated income from such sources as return on investments and member contributions. The difference constitutes the system's liability, which must be met through employer contributions; these consist of a "normal contribution," covering the system's liability attributable to the service rendered by covered employees during the year for which the contribution is determined, and an "accrued liability contribution," covering the system's unfunded liability for previous service. The two contribution requirements are computed and certified to employers as a percentage of total compensation.

In recent years, local employers' contribution obligations to PERS and PFRS have been met through the use of "excess valuation assets" accumulated in the respective systems. Such assets will not be available to offset local employers' required contributions to PFRS beginning in FY2004; for PERS, "excess valuation assets" will no longer be available to offset contributions beginning in FY2005. To ease the fiscal impact on local employers of the loss of this alternative source of funding for their pension liability, this bill adjusts the required payments by local employers into the PERS due in State fiscal years 2005 through 2008 and into the PFRS due in State fiscal years 2004 through 2007. The unpaid portions of the required payments will become part of each system's unfunded accrued liability to be paid over time.

Specifically, the bill provides that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be

a percentage of the amount certified annually by PERS: 20% for payments due in State fiscal year 2005; not more than 40% for payments due in State fiscal year 2006; not more than 60% for payments due in State fiscal year 2007; and not more than 80% for payments due in State fiscal year 2008. Local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the retirement system for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the retirement system as the State Treasurer will determine, but not more than 40% for payments due in State fiscal year 2005, not more than 60% for payments due in State fiscal year 2006, and not more than 80% for payments due in State fiscal year 2007.

FISCAL IMPACT:

The Division of Pensions and Benefits in the Department of the Treasury has informally indicated that:

(1) For State FY2004, when the bill's contribution reduction provisions apply only to PFRS payments, the full payment obligation of PFRS employers is projected at \$267 million. Reducing the obligation to 20% of the full amount will result in actual contributions by local employers in the amount of \$53.4 million and, in consequence, add \$213.6 million to the accrued unfunded liability of the PFRS.

(2) For State FY2005, the full payment obligation of PFRS employers if the bill were not enacted is projected at \$321 million; if the reduced PFRS payment level for that year is set at the highest level allowed under the bill (40% of the full contribution requirement), then actual PFRS contributions that year by local employers will be about \$129 million, and a further \$193 million will be added to the accrued unfunded liability of the PFRS. Also in FY2005, the reduction in PERS local employer contributions will begin. The actuary projects these employers' full PERS payment obligation in that year at \$205 million; reducing the obligation to 20% of that amount will result in actual PERS contributions by these employers of \$41 million and the addition of \$164 million to the system's accrued unfunded liability. The combined effect of the legislation in FY2005 will be to reduce employer contributions to the two systems by a total of \$357 million and to increase the total unfunded liability of the two systems by a like amount.

A fiscal estimate on the creation of the benefits enhancement fund and the increase in the special retirement allowance, as provided by amendment, is not currently available.

COMMITTEE AMENDMENTS:

The amendments provide that, for the respective four-year periods during which local public employers' pension contributions to PERS and PFRS will be reduced, and for the year thereafter when the employers would again be subject to the full contribution requirement, the affected contribution payments shall be exempt from the limits

imposed by the local budget "cap" law.

In addition, the committee amended the bill to increase the special retirement benefit for members of the Police and Firemen's Retirement System (PFRS) beginning with the fiscal year following the adopted valuation report for the retirement system which indicates a funded level of 104%. PFRS members who have 25 or more years of service are now eligible for a pension of 65% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30 (70% maximum). The amendments increase that benefit to a pension of 70% of final compensation, plus 1% of final compensation for each year of creditable service over 25 but not over 30 (75% maximum), when the required amount of excess valuation assets have been credited to a benefit enhancement fund.

The amendments establish in PFRS a benefit enhancement fund to which will be credited an amount of certain excess valuation assets for a valuation period beginning with the valuation report which indicates a funded level of 104%. The amount of excess valuation assets credited to the benefit enhancement fund will not exceed the present value of the expected additional normal and accrued liability contributions attributable to the above increase in the PFRS special retirement benefits payable on behalf of the active PFRS members. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. The normal and accrued liability contributions for this increase in PFRS benefits for active employees will be paid from the benefit enhancement fund. If fund assets are insufficient to pay those contributions for a valuation period, the retirement system will pay the amount not covered by assets from the benefit enhancement fund.

SENATE, No. 2586

STATE OF NEW JERSEY
210th LEGISLATURE

INTRODUCED MAY 29, 2003

Sponsored by:
Senator RICHARD J. CODEY
District 27 (Essex)

SYNOPSIS

Phases in local employers' payments to PERS and PFRS over five years.

CURRENT VERSION OF TEXT

As introduced.



S2586 CODEY

2

1 AN ACT concerning the funding of the Public Employees' Retirement
2 System of New Jersey and the Police and Firemen's Retirement
3 System and amending P.L.1954, c.84 and P.L.1944, c.255.

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

7
8 1. Section 24 of P.L.1954, c.84 (C.43:15A-24) is amended to read
9 as follows:

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

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

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

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.

1 valuation years shall serve to increase or decrease, respectively, the
2 amortization period for the unfunded accrued liability, unless an
3 increase in the amortization period will cause it to exceed 30 years.
4 If an increase in the amortization period as a result of actuarial losses
5 for a valuation year would exceed 30 years, the accrued liability
6 contribution shall be computed for the valuation year in the same
7 manner provided for the computation of the initial accrued liability
8 contribution under this section.

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

40 The value of the assets to be used in the computation of the
41 contributions provided for under this section for valuation periods
42 shall be the value of the assets for the preceding valuation period
43 increased by the regular interest rate, plus the net cash flow for the
44 valuation period (the difference between the benefits and expenses
45 paid by the system and the contributions to the system) increased by
46 one half of the regular interest rate, plus 20% of the difference

1 between this expected value and the full market value of the assets as
2 of the end of the valuation period. This shall be known as the
3 "valuation assets." Notwithstanding the first sentence of this
4 paragraph, the valuation assets for the valuation period ending March
5 31, 1996 shall be the full market value of the assets as of that date and,
6 with respect to the valuation assets allocated to the State, shall include
7 the proceeds from the bonds issued pursuant to the "Pension Bond
8 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
9 to the system by the New Jersey Economic Development Authority to
10 fund the unfunded accrued liability of the system. Notwithstanding
11 the first sentence of this paragraph, the valuation assets for the
12 valuation period ending June 30, 1999 shall be the full market value of
13 the assets as of that date.

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

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

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

19 (3) the contributory group insurance premium fund, created by
20 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
21 of P.L.1960, c.79; less

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

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

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

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

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

40 (3) the contributory group insurance premium fund, created by
41 section 4 of P.L.1955, c.214 (C.43:15A-91), as amended by section 4
42 of P.L.1960, c.79; less

43 (4) the present value of the projected total normal cost for pension
44 adjustment benefits in excess of the projected total phased-in normal
45 cost for pension adjustment benefits for the other employers
46 authorized by section 2 of P.L.1990, c.6 (C.43:15A-24.1) over the full

1 phase-in period, determined in the manner prescribed for the
2 determination and amortization of the unfunded accrued liability of the
3 system, if the sum of the foregoing items is greater than zero.

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

21 (1) for valuation periods ending March 31, 1997 through March
22 31, 2001, to the extent possible by up to 100% of the excess valuation
23 assets allocated to the State or to the other employers, respectively;

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

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

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

33 For calendar years 1998 and 1999, the rate of contribution of
34 members of the retirement system under section 25 of P.L.1954, c.84
35 (C.43:15A-25) shall be reduced by 1/2 of 1% from excess valuation
36 assets and for calendar years 2000 and 2001, the rate of contribution
37 shall be reduced by 2% from excess valuation assets. Thereafter, the
38 rate of contribution of members of the retirement system under that
39 section for a calendar year shall be reduced equally with normal
40 contributions to the extent possible, but not by more than 2%, from
41 excess valuation assets if the State Treasurer determines that excess
42 valuation assets shall be used to reduce normal contributions by the
43 State and local employers for the fiscal year beginning immediately
44 prior to the calendar year, or for the calendar year for local employers
45 whose fiscal year is the calendar year, and excess valuation assets
46 above the amount necessary to fund the reduction for that calendar

1 year in the member contribution rate plus an equal reduction in the
2 normal contribution shall be available for the further reduction of
3 normal contributions, subject to the limitations prescribed by this
4 subsection.

5 If there are excess valuation assets after reductions in normal
6 contributions and member contributions as authorized in the preceding
7 paragraphs for a valuation period beginning with the valuation period
8 ending June 30, 1999, an amount of excess valuation assets not to
9 exceed the amount of the member contributions for the fiscal year in
10 which the normal contributions are payable shall be credited to the
11 benefit enhancement fund. The amount of excess valuation assets
12 credited to the benefit enhancement fund shall not exceed the present
13 value of the expected additional normal contributions attributable to
14 the provisions of P.L.2001, c.133 payable on behalf of the active
15 members over the expected working lives of the active members in
16 accordance with the tables of actuarial assumptions for the valuation
17 period. No additional excess valuation assets shall be credited to the
18 benefit enhancement fund after the maximum amount is attained.
19 Interest shall be credited to the benefit enhancement fund as provided
20 under section 33 of P.L.1954, c.84 (C.43:15A-33).

21 The normal contribution for the increased benefits for active
22 employees under P.L.2001, c.133 shall be paid from the benefit
23 enhancement fund. If assets in the benefit enhancement fund are
24 insufficient to pay the normal contribution for the increased benefits
25 for a valuation period, the State shall pay the amount of normal
26 contribution for the increased benefits not covered by assets from the
27 benefit enhancement fund.

28 c. The retirement system shall certify annually the aggregate
29 amount payable to the contingent reserve fund in the ensuing year,
30 which amount shall be equal to the sum of the amounts described in
31 this section.

32 The State Treasurer shall reduce the normal and accrued liability
33 contributions payable by employers other than the State, excluding the
34 contribution payable from the benefit enhancement fund, to a
35 percentage of the amount certified annually by the retirement system,
36 which percentage shall be: for payments due in the State fiscal year
37 ending June 30, 2005, 20%; for payments due in the State fiscal year
38 ending June 30, 2006, not more than 40%; for payments due in the
39 State fiscal year ending June 30, 2007, not more than 60%; and for
40 payments due in the State fiscal year ending June 30, 2008, not more
41 than 80%.

42 The State shall pay into the contingent reserve fund during the
43 ensuing year the amount so determined. The death benefits, payable
44 as a result of contribution by the State under the provisions of this
45 chapter upon the death of an active or retired member, shall be paid
46 from the contingent reserve fund.

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

4 (cf: P.L.2001, c.133, s.9)

5
6 2. Section 15 of P.L.1944, c.255 (C.43:16A-15) is amended to
7 read as follows:

8 15. (1) The contributions required for the support of the
9 retirement system shall be made by members and their employers.

10 (2) The uniform percentage contribution rate for members shall be
11 8.5% of compensation.

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

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

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

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

23 (7) Each employer shall cause to be deducted from the salary of
24 each member the percentage of earnable compensation prescribed in
25 subsection (2) of this section. To facilitate the making of deductions,
26 the retirement system may modify the amount of deduction required
27 of any member by an amount not to exceed 1/10 of 1% of the
28 compensation upon which the deduction is based.

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

42 (9) With respect to employers other than the State, upon the basis
43 of the tables recommended by the actuary which the board adopts and
44 regular interest, the actuary shall compute the amount of the accrued
45 liability as of June 30, 1991 under the projected unit credit method,
46 which is not already covered by the assets of the retirement system,

1 valued in accordance with the asset valuation method established in
2 this section. Using the total amount of this unfunded accrued liability,
3 the actuary shall compute the initial amount of contribution which, if
4 the contribution is increased at a specific rate and paid annually for a
5 specific period of time, will amortize this liability. The State Treasurer
6 shall determine, upon the advice of the Director of the Division of
7 Pensions and Benefits, the board of trustees and the actuary, the rate
8 of increase for the contribution and the time period for full funding of
9 this liability, which shall not exceed 40 years on initial application of
10 this section as amended by this act, P.L.1994, c.62. This shall be
11 known as the "accrued liability contribution." Any increase or
12 decrease in the unfunded accrued liability as a result of actuarial losses
13 or gains for the 10 valuation years following valuation year 1991 shall
14 serve to increase or decrease, respectively, the unfunded accrued
15 liability contribution. Thereafter, any increase or decrease in the
16 unfunded accrued liability as a result of actuarial losses or gains for
17 subsequent valuation years shall serve to increase or decrease,
18 respectively, the amortization period for the unfunded accrued liability,
19 unless an increase in the amortization period will cause it to exceed 30
20 years. If an increase in the amortization period as a result of actuarial
21 losses for a valuation year would exceed 30 years, the accrued liability
22 contribution shall be computed for the valuation year in the same
23 manner provided for the computation of the initial accrued liability
24 contribution under this section.

25 With respect to the State, upon the basis of the tables recommended
26 by the actuary which the board adopts and regular interest, the actuary
27 shall annually determine if there is an amount of the accrued liability,
28 computed under the projected unit credit method, which is not already
29 covered by the assets of the retirement system, valued in accordance
30 with the asset valuation method established in this section. This shall
31 be known as the "unfunded accrued liability." If there was no
32 unfunded accrued liability for the valuation period immediately
33 preceding the current valuation period, the actuary, using the total
34 amount of this unfunded accrued liability, shall compute the initial
35 amount of contribution which, if the contribution is increased at a
36 specific rate and paid annually for a specific period of time, will
37 amortize this liability. The State Treasurer shall determine, upon the
38 advice of the Director of the Division of Pensions and Benefits, the
39 board of trustees and the actuary, the rate of increase for the
40 contribution and the time period for full funding of this liability, which
41 shall not exceed 30 years. This shall be known as the "accrued liability
42 contribution." Thereafter, any increase or decrease in the unfunded
43 accrued liability as a result of actuarial losses or gains for subsequent
44 valuation years shall serve to increase or decrease, respectively, the
45 amortization period for the unfunded accrued liability, unless an
46 increase in the amortization period will cause it to exceed 30 years.

1 If an increase in the amortization period as a result of actuarial losses
2 for a valuation year would exceed 30 years, the accrued liability
3 contribution shall be computed for the valuation year in the same
4 manner provided for the computation of the initial accrued liability
5 contribution under this section. The State may pay all or any portion
6 of its unfunded accrued liability under the retirement system from any
7 source of funds legally available for the purpose, including, without
8 limitation, the proceeds of bonds authorized by law for this purpose.

9 The value of the assets to be used in the computation of the
10 contributions provided for under this section for valuation periods
11 shall be the value of the assets for the preceding valuation period
12 increased by the regular interest rate, plus the net cash flow for the
13 valuation period (the difference between the benefits and expenses
14 paid by the system and the contributions to the system) increased by
15 one half of the regular interest rate, plus 20% of the difference
16 between this expected value and the full market value of the assets as
17 of the end of the valuation period. This shall be known as the
18 "valuation assets." Notwithstanding the first sentence of this
19 paragraph, the valuation assets for the valuation period ending June
20 30, 1995 shall be the full market value of the assets as of that date and,
21 with respect to the valuation assets allocated to the State, shall include
22 the proceeds from the bonds issued pursuant to the "Pension Bond
23 Financing Act of 1997," P.L.1997, c.114 (C.34:1B-7.45 et seq.), paid
24 to the system by the New Jersey Economic Development Authority to
25 fund the unfunded accrued liability of the system. Notwithstanding the
26 first sentence of this paragraph, the percentage of the difference
27 between the expected value and the full market value of the assets to
28 be added to the expected value of the assets for the valuation period
29 ending June 30, 1998 for the State shall be 100% and for other
30 employers shall be 57% plus such additional percentage as is
31 equivalent to \$150,000,000. Notwithstanding the first sentence of this
32 paragraph, the amount of the difference between the expected value
33 and the full market value of the assets to be added to the expected
34 value of the assets for the valuation period ending June 30, 1999 shall
35 include an additional amount of the market value of the assets
36 sufficient to fund (1) the unfunded accrued liability for the
37 supplementary "special retirement" allowances provided under
38 subsection b. of section 16 of P.L.1964, c.241 (C.43:16A-11.1) and
39 (2) the unfunded accrued liability for the full credit toward benefits
40 under the retirement system for service credited in the Public
41 Employees' Retirement System and transferred pursuant to section 1
42 of P.L.1993, c.247 (C.43:16A-3.8) and the reimbursement of the cost
43 of any credit purchase pursuant to section 3 of P.L.1993, c.247
44 (C.43:16A-3.10) provided under section 1 of P.L.2001, c.201
45 (C.43:16A-3.14).

46 "Excess valuation assets" means, with respect to the valuation

1 assets allocated to the State, the valuation assets allocated to the State
2 for a valuation period less the actuarial accrued liability of the State
3 for the valuation period, and beginning with the valuation period
4 ending June 30, 1998, less the present value of the expected additional
5 normal cost contributions attributable to the provisions of P.L.1999,
6 c.428 (C.43:16A-15.8 et al.) payable on behalf of the active members
7 employed by the State as of the valuation period over the expected
8 working lives of the active members in accordance with the tables of
9 actuarial assumptions applicable to the valuation period, if the sum is
10 greater than zero. "Excess valuation assets" means, with respect to
11 the valuation assets allocated to other employers, the valuation assets
12 allocated to the other employers for a valuation period less the
13 actuarial accrued liability of the other employers for the valuation
14 period, excluding the unfunded accrued liability for early retirement
15 incentive benefits pursuant to P.L.1993, c.99 for the other employers,
16 and beginning with the valuation period ending June 30, 1998, less the
17 present value of the expected additional normal cost contributions
18 attributable to the provisions of P.L.1999, c.428 (C.43:16A-15.8 et
19 al.) payable on behalf of the active members employed by other
20 employers as of the valuation period over the expected working lives
21 of the active members in accordance with the tables of actuarial
22 assumptions applicable to the valuation period, if the sum is greater
23 than zero.

24 If there are excess valuation assets allocated to the State or to the
25 other employers for the valuation period ending June 30, 1995, the
26 normal contributions payable by the State or by the other employers
27 for the valuation periods ending June 30, 1995, and June 30, 1996
28 which have not yet been paid to the retirement system shall be reduced
29 to the extent possible by the excess valuation assets allocated to the
30 State or to the other employers, respectively, provided that with
31 respect to the excess valuation assets allocated to the State, the
32 General Fund balances that would have been paid to the retirement
33 system except for this provision shall first be allocated as State aid to
34 public schools to the extent that additional sums are required to
35 comply with the May 14, 1997 decision of the New Jersey Supreme
36 Court in *Abbott v. Burke*.

37 If there are excess valuation assets allocated to the other employers
38 for the valuation period ending June 30, 1998, the accrued liability
39 contributions payable by the other employers for the valuation period
40 ending June 30, 1997 shall be reduced to the extent possible by the
41 excess valuation assets allocated to the other employers.

42 If there are excess valuation assets allocated to the State or to the
43 other employers for a valuation period ending after June 30, 1998, the
44 State Treasurer may reduce the normal contribution payable by the
45 State or by other employers for the next valuation period as follows:

46 (1) for valuation periods ending June 30, 1996 through June 30,

1 2000, to the extent possible by up to 100% of the excess valuation
2 assets allocated to the State or to the other employers, respectively;

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

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

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

12 Notwithstanding the discretion provided to the State Treasurer in
13 the previous paragraph to reduce the amount of the normal
14 contribution payable by employers other than the State, the State
15 Treasurer shall reduce the amount of the normal contribution payable
16 by employers other than the State by \$150,000,000 in the aggregate
17 for the valuation period ending June 30, 1998, and then the State
18 Treasurer may reduce further pursuant to the provisions of the
19 previous paragraph the normal contribution payable by such employers
20 for that valuation period.

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

26 Notwithstanding the preceding sentence, the normal and accrued
27 liability contributions to be included in the budget of and paid by the
28 employer other than the State shall be as follows: for the payment due
29 in the State fiscal year ending on June 30, 2004, 20% of the amount
30 certified by the retirement system; for the payment due in the State
31 fiscal year ending on June 30, 2005, a percentage of the amount
32 certified by the retirement system as the State Treasurer shall
33 determine but not more than 40%; for the payment due in the State
34 fiscal year ending on June 30, 2006, a percentage of the amount
35 certified by the retirement system as the State Treasurer shall
36 determine but not more than 60%; and for the payment due in the
37 State fiscal year ending on June 30, 2007, a percentage of the amount
38 certified by the retirement system as the State Treasurer shall
39 determine but not more than 80%.

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

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

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

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

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

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

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

32 (15) If the valuation assets are insufficient to fund the normal and
33 accrued liability costs attributable to P.L.1999, c.428 (C.43:16A-15.8
34 et al.) as provided hereinabove, the normal and unfunded accrued
35 liability contributions required to fund these costs for the State and
36 other employers shall be paid by the State.

37 (16) The savings realized as a result of the amendments to this
38 section by P.L.2001, c.44 in the payment of normal contributions
39 computed by the actuary for the valuation periods ending June 30,
40 1998 for employers other than the State shall be used solely and
41 exclusively by a county or municipality for the purpose of reducing the
42 amount that is required to be raised by the local property tax levy by
43 the county for county purposes or by the municipality for municipal
44 purposes, as appropriate. The Director of the Division of Local
45 Government Services in the Department of Community Affairs shall
46 certify for each year that each county or municipality has complied

1 with the requirements set forth herein. If the director finds that a
2 county or municipality has not used the savings solely and exclusively
3 for the purpose of reducing the amount that is required to be raised by
4 the local property tax levy by the county for county purposes or by the
5 municipality for municipal purposes, as appropriate, the director shall
6 direct the county or municipal governing body, as appropriate, to
7 make corrections to its budget.

8 (cf: P.L.2001, c.201, s.2)

9

10 3. This act shall take effect immediately.

11

12

13

STATEMENT

14

15 To provide budget relief to local employers while waiting for the
16 investment yield on pension funds to return to more normal levels, this
17 bill phases in the required payments by local employers into the Public
18 Employees' Retirement System (PERS) due in State fiscal years 2005
19 through 2008 and into the Police and Firemen's Retirement System
20 (PFRS) due in State fiscal years 2004 through 2007. The unpaid
21 portions of the required payments will become part of each system's
22 unfunded accrued liability to be paid over time.

23 Specifically, the bill provides that the State Treasurer will reduce
24 local employer PERS normal and accrued liability contributions to be
25 a percentage of the amount certified annually by PERS: 20% for
26 payments due in State fiscal year 2005; not more than 40% for
27 payments due in State fiscal year 2006; not more than 60% for
28 payments due in State fiscal year 2007; and not more than 80% for
29 payments due in State fiscal year 2008. Local employer PFRS normal
30 and accrued liability contributions will be 20% of the amount certified
31 by the retirement system for payments due in State fiscal year 2004
32 and thereafter a percentage of the amount certified by the retirement
33 system as the State Treasurer will determine, but not more than 40%
34 for payments due in State fiscal year 2005, not more than 60% for
35 payments due in State fiscal year 2006, and not more than 80% for
36 payments due in State fiscal year 2007.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2586

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 12, 2003

The Senate Budget and Appropriations Committee reports favorably and with committee amendments Senate Bill No. 2586.

This bill would reduce for four years the pension contributions that local employers must make to the Public Employees' Retirement System of New Jersey (PERS) and the Police and Firemen's Retirement System (PFRS).

In recent years, local employers' contribution obligations to PERS and PFRS have been met through the use of "excess valuation assets" accumulated in the respective systems. Such assets will not be available to offset local employers' required contributions to PFRS beginning in FY2004; for PERS, "excess valuation assets" will no longer be available to offset contributions beginning in FY2005. To ease the fiscal impact on local employers of the loss of this alternative source of funding for their pension liability, this bill adjusts the required payments by local employers into the PERS due in State fiscal years 2005 through 2008 and into the PFRS due in State fiscal years 2004 through 2007. The unpaid portions of the required payments will become part of each system's unfunded accrued liability to be paid over time.

Specifically, the bill provides that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS: 20% for payments due in State fiscal year 2005; not more than 40% for payments due in State fiscal year 2006; not more than 60% for payments due in State fiscal year 2007; and not more than 80% for payments due in State fiscal year 2008. Local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the retirement system for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the retirement system as the State Treasurer will determine, but not more than 40% for payments due in State fiscal year 2005, not more than 60% for payments due in State fiscal year 2006, and not more than 80% for payments due in State fiscal year 2007.

COMMITTEE AMENDMENTS

Committee amendments to this bill provide that, for the respective four-year periods during which local public employers' pension contributions to PERS and PFRS would be reduced, and for the year thereafter when the employers would again be subject to the full contribution requirement, the affected contribution payments shall be exempt from the limits imposed by the local budget "cap" law.

FISCAL IMPACT

The Division of Pensions and Benefits in the Department of the Treasury has informally indicated that:

(1) For State FY2004, when the bill's contribution reduction provisions apply only to PFRS payments, the full payment obligation of PFRS employers is projected at \$267 million. Reducing the obligation to 20% of the full amount will result in actual contributions by local employers in the amount of \$53.4 million and, in consequence, add \$213.6 million to the accrued unfunded liability of the PFRS.

(2) For State FY2005, the full payment obligation of PFRS employers if the bill were not enacted is projected at \$321 million; if the reduced PFRS payment level for that year is set at the highest level allowed under the bill (40% of the full contribution requirement), then actual PFRS contributions that year by local employers will be about \$129 million, and a further \$193 million will be added to the accrued unfunded liability of the PFRS. Also in FY2005, the reduction in PERS local employer contributions will begin. The actuary projects these employers' full PERS payment obligation in that year at \$205 million; reducing the obligation to 20% of that amount will result in actual PERS contributions by these employers of \$41 million and the addition of \$164 million to the system's accrued unfunded liability. The combined effect of the legislation in FY2005 will be to reduce employer contributions to the two systems by a total of \$357 million and to increase the total unfunded liability of the two systems by a like amount.

It should be noted that future investment experience and other factors may reduce (or increase) PERS and PFRS employer funding requirements, and thus alter the fiscal impact of the legislation from current projections.

STATEMENT TO
[First Reprint]
SENATE, No. 2586

with Senate Floor Amendments
(Proposed By Senator CODEY)

ADOPTED: JUNE 16, 2003

The floor amendments increase the special retirement benefit for members of the Police and Firemen's Retirement System (PFRS) beginning with the fiscal year following the adopted valuation report for the retirement system which indicates a funded level of 104%. PFRS members who have 25 or more years of service are now eligible for a pension of 65% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30 (70% maximum). The amendments increase that benefit to a pension of 70% of final compensation, plus 1% of final compensation for each year of creditable service over 25 but not over 30 (75% maximum), when the required amount of excess valuation assets have been credited to a benefit enhancement fund.

The floor amendments establish in PFRS a benefit enhancement fund to which will be credited an amount of certain excess valuation assets for a valuation period beginning with the valuation report which indicates a funded level of 104%. The amount of excess valuation assets credited to the benefit enhancement fund will not exceed the present value of the expected additional normal and accrued liability contributions attributable to the above increase in the PFRS special retirement benefits payable on behalf of the active PFRS members. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. The normal and accrued liability contributions for this increase in PFRS benefits for active employees will be paid from the benefit enhancement fund. If fund assets are insufficient to pay those contributions for a valuation period, the retirement system will pay the amount not covered by assets from the benefit enhancement fund.

LEGISLATIVE FISCAL ESTIMATE
 [Second Reprint]
SENATE, No. 2586
STATE OF NEW JERSEY
210th LEGISLATURE

DATED: SEPTEMBER 29, 2003

SUMMARY

- Synopsis:** Adjusts local employers' contributions to PERS and PFRS over five years; provides exemption from municipal and county "cap" limitation; creates fund for certain excess assets to enhance PFRS special retirement.
- Type of Impact:** Expenditure reduction, Local employers. Contribution reduction, Public Employees Retirement System - Local; Police and Firemen's Retirement System - Local. Expenditure increase, Local government funds.
- Agencies Affected:** Local governments.

Office of Legislative Services Estimate

Fiscal Impact	FY 2004	FY 2005	FY 2006
Local Savings	\$213,586,738	\$356,600,000	\$271,776,301
Local Cost	See Comments Below		

- ! The Office of Legislative Services (OLS) **concurs** with the informal Executive estimate.
- ! Phases-in local contributions by employers into the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) over five years.
- ! Increases from 65 percent to 70 percent the base percentage of final compensation a member of the PFRS will receive upon special retirement.
- ! The Division of Pensions and Benefits informally estimates that in FY 2004, the provisions of this bill would reduce the required local government employers' contributions to PFRS by \$213.6 million. In FY 2005, it reduces required local government employers' contributions by \$192.6 million for PFRS and by \$164 million for PERS.
- ! The division estimates an additional accrued (prior) liability of approximately \$530.9 million due to the provisions of this bill to enhance the PFRS special retirement. Annual payments over a period of 30 years would commence two years after the benefit enhancement takes

effect at an estimated cost of \$25.8 million.

- ! Payments to fund the additional normal cost for future benefits associated with the provisions of this bill are estimated at an annual cost of approximately \$36 million.
- ! The PFRS will experience a reduction in excess assets, when the retirement system records a funding level in excess of 104 percent, because these excess assets would be credited to a benefit enhancement fund. These excess valuation assets will cover the additional employer contributions to pay the normal cost and unfunded accrued liability associated with the increased benefit.

BILL DESCRIPTION

Senate Bill No. 2586 (2R) of 2003 would phase-in the required payments by local employers into the Public Employees' Retirement System (PERS) due in State fiscal years 2005 through 2008 and into the Police and Firemen's Retirement System (PFRS) due in State fiscal years 2004 through 2007. The unpaid portions of the required payments will become part of each system's unfunded accrued liability to be paid over time.

Specifically, the bill provides that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS: 20 percent for payments due in State fiscal year 2005; not more than 40 percent for payments due in State fiscal year 2006; not more than 60 percent for payments due in State fiscal year 2007; and not more than 80 percent for payments due in State fiscal year 2008.

Local employer PFRS normal and accrued liability contributions will be 20 percent of the amount certified by the retirement system for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the retirement system as the State Treasurer will determine, but not more than 40 percent for payments due in State fiscal year 2005, not more than 60 percent for payments due in State fiscal year 2006, and not more than 80 percent for payments due in State fiscal year 2007.

This bill would enhance the retirement benefit for PFRS members who retire with 25 but not more than 30 years of service credit by increasing the pension allowance from 65 percent of final compensation plus 1 percent of final compensation multiplied by the number of years of creditable service over 25 but not over 30; to 70 percent of final compensation plus 1 percent of final compensation multiplied by the number of years of creditable service over 25 but not over 30, provided the retirement system attains a funded level in excess of 104 percent, at which time a benefit enhancement fund would be created. The current maximum special retirement allowance is 70 percent of final compensation. Under the bill, the maximum would increase to 75 percent of final compensation.

Excess assets equal to the present value of the future normal contributions for the enhanced benefits would be deposited into the benefit enhancement fund. Both the normal and accrued liability contributions for the increased benefits for active employees would be paid from the benefit enhancement fund. However, if assets in this benefit enhancement fund are insufficient to pay the normal and accrued liability contributions, the State would be required to pay the contributions not covered by the assets.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services concurs with the informal Executive estimate and notes that approximately 90 percent of new retirement types in PFRS are special retirements.

For FY 2004, the bill's contribution reduction provisions would apply only to the Police and Firemen's Retirement System (PFRS) reflecting that the local employers' contribution obligation to the Public Employees' Retirement System (PERS) have been met through the use of excess valuation assets. The full payment obligation of PFRS employers is estimated at \$267 million. Reducing the obligation to 20 percent of the full amount will result in actual contributions by local employers in the amount of \$53.4 million and, in consequence, add \$213.6 million to the accrued unfunded liability of the PFRS.

For FY 2005, the full payment obligation of PFRS employers is estimated at \$321 million. Reducing the obligation to 40 percent of the full amount will result in actual contributions by local employers in the amount of \$128.4 million, and a further \$192.6 million would be added to the accrued unfunded liability of the PFRS. Also in FY 2005, the reduction in PERS local employer contributions will begin. The actuary projects these employers' full PERS payment obligation in that year at \$205 million. Reducing the obligation to 20 percent of will result in actual PERS contributions by these employers of \$41 million and the addition of \$164 million to the system's accrued unfunded liability. The combined effect of the legislation in FY 2005 will be to reduce employer contributions to the two systems by a total of \$356.6 million and to increase the total unfunded liability of the two systems by a like amount.

The division informally estimated the present value of the additional unfunded accrued liability for PFRS from the special retirement enhancement provision at approximately \$500 million. The normal cost, to ensure that the future liability for this enhancement is funded, was informally estimated at \$36 million per year. These payments would not begin until two years after the fiscal year immediately following the adoption of the valuation report by the PFRS board of trustees in which the funded level is in excess of 104 percent. At that time, excess assets will be transferred to a new benefit enhancement fund. The additional annual employer normal and accrued liability contributions associated with the special retirement benefit enhancement would be paid from this benefit enhancement fund.

The Office of Legislative Services observes that this bill would have constitutional State Mandate/State Pay implications. However, the constitutional provision (Art. VIII, Sec. II, par. 5) provides that a law will not be an unfunded mandate if there has been a public hearing, a fiscal analysis, and the bill passed by 3/4 vote in each House of the Legislature.

Section: *State Government*

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