

**FISCAL NOTE**  
**ASSEMBLY, No. 3688**  
**STATE OF NEW JERSEY**  
**213th LEGISLATURE**

DATED: FEBRUARY 4, 2009

**SUMMARY**

- Synopsis:** Adjusts local employers' contributions to PERS and PFRS for State fiscal years 2009 through 2011.
- Type of Impact:** Reduces local government general fund costs and increases the unfunded actuarial accrued liability of PERS and PFRS.
- Agencies Affected:** Department of the Treasury, Division of Pensions and Benefits; local government entities.

**Executive Estimate**

<b>Fiscal Impact</b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
<b>Local Cost</b>	(\$584,347,865)	(\$508,941,363)	(\$257,500,221)

- The Office of Legislative Services (OLS) **concurs** with the Executive estimate.
- This bill provides for reductions in the contributions that local employers must make to the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) during State fiscal years 2009 through 2011.
- The bill will reduce local employers' contributions to the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) by a total of \$1.35 billion: \$584.3 million in FY 2009, \$508.9 million in FY 2010, and \$257.5 million in FY 2011.
- The Division of Pensions and Benefits indicates that the estimate for near term costs to pay for the reduction in contributions will be \$63.5 million in FY 2012, \$61.4 million in FY 2013, and \$60.2 million in FY 2014, but this amount may change over time because the unfunded liability will be amortized over decades.

**BILL DESCRIPTION**

Assembly Bill No. 3688 of 2009 provides for reductions in the contributions that local employers must make to the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) during State fiscal years 2009 through 2011.

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 such 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.

This bill provides that the State Treasurer will reduce for local employers the normal and accrued liability contributions to a percentage of the amount certified annually by the PERS and PFRS, which percentage will be not more than 50 percent for payments due in State fiscal year 2009; not more than 60 percent for payments due in State fiscal year 2010; and not more than 80 percent for payments due in State fiscal year 2011.

The bill provides that for the respective three fiscal years during which local public employers' pension contributions to the 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 will be exempt from the limits imposed on increases to municipal appropriations set forth in N.J.S.A.40A:4-45.3, the local budget "cap" law, and to the county tax levy set forth in N.J.S.A.40A:4-45.4. The bill also amends current law concerning the calculation of the tax levy growth limitation for the purpose of an increase in the adjusted tax levy for a school district, and the exclusions added to the calculation for the adjusted tax levy for a local unit of government, to account for certain normal and accrued liability pension contribution increases.

The bill authorizes the Director of the Division of Investment in the Department of the Treasury to create a special reserve fund to accept and invest moneys received from local employers for whom pension contribution requirements were adjusted as a result of this bill. The moneys will be held in the fund and invested in accordance with the standards governing the investment of other funds managed under the rules and regulations of the State Investment Council. The State Investment Council is to adopt a policy statement and investment plan related to the investment of fund assets, which will be made available to the public on the division's website. A local employer that withdraws any portion of its fund contribution must use the withdrawn moneys and any earnings only for the purpose of making a required pension contribution. Any fund contributions and earnings that have not been withdrawn by the date on which local employer pension contributions are required to be paid for the State fiscal year ending June 30, 2012 will be returned to the local employer that made the fund contributions.

The bill requires a municipality, county, or other local unit that has appropriated an amount in excess of the amount due as an annual pension contribution to the PERS or the PFRS to deposit the excess in the special reserve fund described above, in the State Cash Management Plan, or in an interest bearing account as permitted pursuant to the cash management plan of the municipality, county, or other local unit. The deposited amount must remain in the fund, plan, or account until the municipality, county, or other local unit determines that the moneys are needed to make pension contribution payments. The provision described in this paragraph will be operative only until the date on which PERS and PFRS pension contributions by a municipality, county, or other local unit are required to be paid for the State fiscal year ending June 30, 2012. Similar provisions are created by the bill for boards of education and boards of school estimate.

Finally, the bill requires the Director of the Division of Pensions and Benefits in the Department of the Treasury to report to the Governor and Legislature, within 180 days after the

effective date of this bill, on the feasibility and consequences of creating individual employer accounts within the State-administered retirement systems.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

According to the Executive Branch, Assembly Bill No. 3688 of 2009 will reduce local employers' contributions to the Public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) by a total of \$1.35 billion: \$584.3 million in FY 2009, \$508.9 million in FY 2010, and \$257.5 million in FY 2011. Local employer contributions to PERS and PFRS are to return to full funding in FY 2012. The reduction in local employer contributions during the three-year period will increase the unfunded liability of the systems. As a result, the full funding level for FY 2012 through FY 2041 will be greater than it would otherwise be. The Division of Pensions and Benefits indicates that the estimate for near term costs to pay for the reduction in contributions will be \$63.5 million in FY 2012, \$61.4 million in FY 2013, and \$60.2 million in FY 2014, but this amount will change over time because the unfunded liability will be amortized over decades.

### ***OFFICE OF LEGISLATIVE SERVICES***

The OLS concurs with the Executive estimate. The OLS notes that the estimated amount to be amortized over the long run may change on a year to year basis. While there are many variables that determine the annual pension contributions by employers, under almost any conceivable scenario the amount employers will have to pay will be higher than it otherwise would have been without the bill.

*Section: State Government*

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This fiscal note has been prepared pursuant to P.L. 1980, c.67 (C. 52:13B-1 et seq.).