

**FISCAL NOTE**  
 Corrected Copy  
 SENATE COMMITTEE SUBSTITUTE FOR  
**SENATE, Nos. 1962, 1964, 1965, 1969 and 2077**  
**STATE OF NEW JERSEY**  
**213th LEGISLATURE**

DATED: SEPTEMBER 12, 2008

**SUMMARY**

**Synopsis:** Makes changes to PERS and TPAF concerning retirement age, eligibility, purchase of service credit; makes various changes to SHBP administration; merges Washington and Lincoln holidays for State employees in Presidents Day.

**Type of Impact:** Expenditure reduction; State General Fund.

**Agencies Affected:** Division of Pensions and Benefits; Department of Treasury.

**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>State Savings</b>		See comments below	
<b>Local Savings</b>		See comments below	

- The Office of Legislative Services (OLS) **concurs** with the Executive estimate.
- This bill prohibits eligibility for credit purchased in the Teacher’s Pension and Annuity Fund (TPAF) or the Public Employee’s Retirement System (PERS) for certain out-of-State service from being creditable towards eligibility for post-retirement health care benefits.
- This bill allows State employees who are eligible for other health care coverage to waive State Health Benefits Program (SHBP) coverage, as specified.
- This bill raises the retirement age for a retirement allowance without any reduction, from age 60 to age 62, for new members of the TPAF and the PERS.
- This bill changes the eligibility criteria for new employees for PERS and TPAF membership, from a minimum annual compensation of \$500 for TPAF and \$1,500 for PERS to \$7,500 or more, as specified. Those ineligible for PERS or TPAF, but earning at least \$1,500 per year may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP).

- The bill provides that new adjunct faculty members or part-time instructors at a public institution of higher education in the State whose employment agreement begins after the effective date of this bill will be eligible for membership in the Alternate Benefit Program (ABP), instead of PERS.
- The bill requires a local government employee to work a full-time work week, as specified by the employer of at least 20 hours, to be eligible for health care benefits through the SHBP. SHBP is required to audit its membership to identify ineligible participants.
- This bill lowers, from 13 to 12, the number of paid holidays for all State government employees by merging the Washington's and Lincoln's Birthday holidays into President's Day.

## **BILL DESCRIPTION**

The Corrected Copy Senate Committee Substitute for Senate Bill Nos. 1962, 1964, 1965, 1969 and 2077 of 2008, entitled "The Public Employee Pension and Benefits Reform Act of 2008," implements an additional six major recommendations made in the report of the Joint Legislative Committee on Public Employee Benefits Reform issued during the New Jersey Legislature's 2006 Special Session.

This bill prohibits pension system credit purchased for out-of-State service from being creditable towards post-retirement health care benefits. Service credit in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), established through purchase on or after the bill's effective date by a current or future member for prior employment with another state or the federal government, or for service with a bi-state or multi-state agency in the case of a member of PERS, cannot be used to meet the requirements for employer-paid health care benefits in retirement.

This bill also provides that the State as an employer, or an independent State authority, commission, board or instrumentality, may allow any employee who is eligible for other health care coverage that is not under the State Health Benefits Program (SHBP) to waive the SHBP coverage to which the employee is entitled by virtue of employment with the State or other State entity. In consideration of filing a waiver, the State or other employer may pay the employee annually an amount established at its sole discretion and not in excess of 50 percent of the amount saved because of the employee's waiver of coverage.

Current law permits public employers participating in the SHBP other than the State to offer a waiver incentive. Under the bill, the arrangement after a waiver is the same for both State and local employees. An employee who waives coverage will be permitted to resume coverage immediately, if the employee ceases to have other health care coverage, but will be required to repay, on a pro rata basis, any amount received from the employer which represents an advance payment for a period of time during which coverage is resumed. The decision of an employer to allow its employees to waive SHBP coverage and the amount of consideration to be paid is not subject to the collective bargaining process.

This bill raises the retirement age for a retirement allowance without any reduction, from age 60 to age 62, for members of the TPAF and the PERS who become a member on or after the effective date of this bill. Under current law, members of either system who became members before July 1, 2007 may retire at age 55 years with 25 years of service or at age 60 with any number of years of service without a reduction in the amount of retirement allowance the members' receive. There is a reduction in such an allowance if the member is under 55 with

25 years of service. Under current law, there is also a reduction in an allowance for members of either system who became members on or after July 1, 2007 and who retire between age 55 and 60 with 25 or more years of service. If a person becomes a member on or after the effective date of this bill, that person must be at least 62 years of age in order to retire without a reduction in his or her retirement allowance.

This bill changes the eligibility criteria for becoming a member of the TPAF and of the PERS. Currently, the eligibility criteria are a minimum annual compensation threshold of \$500 for TPAF and \$1,500 for PERS. Those same criteria will continue to apply to a person who is a TPAF or PERS member on the effective date of the bill and continuously thereafter. The bill provides that, after its effective date, a person who was not a member of either retirement system on that effective date, or who was a member on that date but not continuously thereafter, and who is in public employment, office or position covered by TPAF or PERS for which the annual salary or remuneration is certified by the public entity at \$7,500 or more, will be eligible to become a member of the relevant retirement system. The \$7,500 minimum annual salary threshold or remuneration amount will be adjusted annually by the Director of the Division of Pensions and Benefits, by regulation, in accordance with changes in the Consumer Price Index but by no more than 4 percent. "Consumer Price Index" means the average of the annual increase, expressed as a percentage, in the consumer price index for all urban consumers in the New York City and Philadelphia metropolitan statistical areas during the preceding calendar year as reported by the United States Department of Labor. Under the bill, persons ineligible for TPAF or PERS based on the new criteria may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP). The bill also provides that an appeal by any person who is denied membership in TPAF or PERS will be transmitted as a contested case to the Office of Administrative Law for an adjudicatory proceeding.

In addition, the bill provides that an adjunct faculty member or part-time instructor at a public institution of higher education in the State whose employment agreement begins after the effective date of the bill will be eligible for membership in the Alternate Benefit Program (ABP), instead of PERS.

The bill puts into statute the current eligibility criteria for SHBP coverage, now contained in regulation, for an employee of an employer other than the State, who must work the number of hours per week as prescribed by the governing body of the participating employer, which number of hours worked will be considered full-time, determined by resolution and not less than 20. The bill provides that any person who knowingly obtains SHBP coverage for an ineligible person, himself or another, will be guilty of a crime of the fourth degree, punishable by imprisonment for up to 18 months or a fine of up to \$10,000, or both. The bill requires the SHBP to establish an audit program to ensure that only eligible employees and retirees, and their dependents, are receiving health care coverage under the program.

Finally, this bill would lower, from 13 to 12, the number of paid holidays for all State government public employees. Under the bill, the legal holiday known as Lincoln's Birthday would no longer be considered a public holiday for the purposes of conducting State government business. On that day, State government offices are to remain open. In honor of President Lincoln and all Presidents, the bill provides for the third Monday in February, known as Washington's Birthday, to be known and celebrated as Presidents Day for the purpose of a paid holiday for State employees. This provision of the bill will take effect in the calendar year after the collective bargaining agreements or contracts covering a majority of the Executive Branch employees expire.

**FISCAL ANALYSIS*****EXECUTIVE BRANCH***

According to the Division of Pensions and Benefits in the Department of Treasury, the estimable long term savings resulting from this bill will total \$152.2 million by FY 2022. Of that amount, \$107 million in savings will result from raising the retirement age from 60 to 62, and \$13 million in savings will result from raising the PERS eligibility threshold to \$7,500. The bill also raises the TPAF eligibility threshold to \$7,500 but this will result in virtually no savings. It is estimated that the elimination of Lincoln's birthday as a holiday for State employees will result in \$32.2 million in savings.

With regard to the other provisions of the bill, no savings can be estimated or no savings will result. For example, the division indicates that there is no estimate at this time with regard to the requirement that all new adjunct faculty join the ABP instead of PERS. The appeal process, provided in this bill for those who are denied membership into PERS or TPAF, is not expected to provide any savings.

<b>Aggregate Projected Long-Term Savings from Proposed Reforms</b>					
<b>For the Period FY 2011 to FY 2022</b>					
<b>(\$Millions)</b>					
	<b>State</b>		<b>Local</b>		<b>Total</b>
Increase retirement age from 60 to 62	PERS/TPAF	\$53.63	PERS	\$53.36	\$106.99
Raise eligibility threshold to \$7,500	PERS	\$0.84	PERS	\$12.22	\$13.06
New adjunct faculty from PERS to ABP	No estimate at this time				
Appeals process RS/TPAF	No savings				
<b>Total Pension Savings</b>		\$54.47		\$65.58	\$120.05

<b>Total Health Care Benefit Savings</b>	No estimate at this time but the purchase and waiver provisions may result in savings ultimately.
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Eliminate Lincoln's birthday as a State employee holiday	\$32.15		\$32.15
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<b>Total Savings</b>	\$86.62	\$65.58	\$152.20
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Source: Division of Pensions and Benefits, Department of Treasury. Assumes an FY 2009 implementation date.

Initial savings in FY 2011 to the State and local governments as a result of this measure are estimated to be \$1.11 million, \$600,000 in State PERS savings and \$820,000 in local PERS savings from increasing the retirement age from age 60 to age 62. These initial FY 2011 savings are offset by increased costs to the State and local employers of \$310,000 to pay for the employer's three percent contribution to the DCRP for those employees whose income falls below the \$7,500 PERS eligibility threshold established by this bill. The division estimates there

will be initial costs of \$360,000 to the State and local employers in FY 2009 and FY 2010 from the enrollment of new employees in the DCRP.

It is estimated that the elimination of Lincoln's Birthday as a State employee holiday would reduce State overtime costs by approximately \$2.5 million beginning in FY 2012 rising to approximately \$3 million annually by FY 2022. There may be a modest expenditure increase related to operating public offices for an additional day.

The Division of Pensions and Benefits breaks down these initial savings by fiscal year as shown in the chart below.

<b>Projected Savings Assuming FY 2009 Implementation (\$ Millions)</b>			
<b>Pension and Health Care Benefit Reforms</b>			
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Increase Retirement Age from 60 to 62			
PERS - State	\$0.20	\$0.37	\$0.62
TPAF	\$0.40	\$0.78	\$1.21
PERS local	\$0.82	\$0.99	\$1.19
Raise PERS and TPAF eligibility threshold to \$7,500			
PERS - State			
PERS Savings	\$0.06	\$0.10	\$0.14
DCRP Cost at 3 percent	\$0.09	\$0.11	\$0.14
Net Savings/(Costs) - State	(\$0.03)	(\$0.01)	\$0.00
PERS - Local			
PERS Savings	\$0.90	\$1.43	\$2.03
DCRP Cost at 3 percent	\$1.18	\$1.57	\$2.03
Net Savings/(Costs) - Local	(\$0.28)	(\$0.14)	\$0.00
Eliminate Lincoln's Birthday		\$2.44	\$2.52

Source: Division of Pensions and Benefits.

According to the Division of Pensions and Benefits, the savings related to the SHBP are more difficult to estimate. Data are not available to estimate savings related to not allowing the out-of-State purchase of service credit in PERS and TPAF to count towards post-retirement medical benefits. The division indicates that if this change is enacted, however, it will reduce the number of employees qualifying for employer-paid post-retirement medical benefits which will ultimately result in savings.

The division also indicates that the bill does not guarantee any savings with regard to offering an incentive for State employees eligible for other health care coverage to waive their SHBP coverage in favor of another health care plan.

Finally, no data are available to estimate the cost of auditing the SHBP annually to identify ineligible participants in the SHBP. However, this bill may result in savings over time if ineligible SHBP participants are identified and removed from the system.

There are no savings to the SHBP anticipated resulting from the codification of current regulations for the definition of eligible full-time employees for local government employers.

***OFFICE OF LEGISLATIVE SERVICES***

The OLS concurs with the Executive estimate. The OLS notes that the pension savings will not begin to be realized until 2011. This is because there is a two year lag between when a valuation report by the system's actuaries is generated and when contributions become due. Savings related to the elimination of Lincoln's Birthday holiday are not realizable until 2012. This is because holidays are set forth in most current collective bargaining agreements which are in effect until June 30, 2011 and the first Lincoln's Birthday holiday that would be affected by this bill is February 2012.

*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.).