SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

SENATE, No. 5

STATE OF NEW JERSEY

DATED: FEBRUARY 5, 2018

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 5 (1R).

This bill transfers management of the Police and Firemen's Retirement System (PFRS) from the Division of Pensions and Benefits in the Department of the Treasury to the Board of Trustees of the PFRS.

The bill changes the membership of the Board of Trustees of the PFRS from 11 to 12 members. Seven trustees must be present at any meeting of the board for the transaction of its business. A member of the Board of Trustees of the PFRS may be removed if the member has more than three unexcused absences from the board's meetings in any calendar year. A member may also participate in meetings of the board by teleconference.

Under the bill, the board will consist of three active policemen and three active firemen. The active members of the system will elect one active policeman and one active fireman. The remaining active policemen and firemen will be appointed by the heads of four unions representing policemen and firemen in the State. In addition, the board will contain one retiree elected by retirees in the PFRS.

To represent the interests of local government employers, the Governor will appoint four trustees, who either hold or have held an elective local public office or are employed, or have been employed, by a local government as an administrator, manager, or chief financial officer. The Governor will also appoint one trustee, who holds, or has held, a position in the Executive Branch at the level of division director or above, to represent the interests of State government.

The bill vests with the board of trustees all the functions, powers, and duties relating to the investment and reinvestment of money in any fund or account under the control of the board. Under the bill, the board of trustees may make and execute agreements with public and private enterprises for the management of the investments of the retirement system. The bill requires the board to hire an executive director, actuary, chief investment officer, ombudsman, and internal auditor, as well as retain experienced legal counsel.

This bill requires the executive director and chief investment officer employed by the board to have, at minimum, a bachelor's degree from an accredited institution of higher education, and at least five years management experience in accounting, finance, public administration, government pension and retirement planning, investment banking, financial consulting, money management, or a similar field, and to meet all other requirements for employment set forth in a standard adopted by the board. A member, retiree, or other beneficiary of the retirement system may not hold the position of executive director or chief investment officer.

Under the bill, the board of trustees has the authority to establish a process for the review, approval, and appeal of applications for retirement. The bill provides the board of trustees with authority to modify the system's member contribution rate; cap on creditable compensation; formula for calculation of final compensation; and standards for special retirement and disability retirement. The bill allows the board to reinstate cost of living adjustments for retirees. Under the bill, the board may alter any benefit set forth in statute for the PFRS. There are to be at least eight votes of the authorized membership of the board to approve any enhancement or reduction of a member benefit, other than the activation of the now-suspended cost of living adjustment for retirees, or to approve any increase or decrease in the employer contribution that is more than what is recommended by the actuary for the system for the purpose of the annual funding requirements of the system.

Moreover, the bill requires local employers to pay their required contributions to the PFRS on a quarterly basis. If a local employer does not make a required contribution within 30 days of the due date, the Division of Local Government Services will withhold any State aid payment due to that employer in an amount equal to the amount of the delinquent contribution. If the employer is eligible for transitional aid, the Division of Local Government Services is to consult with the board to develop a payment plan to ensure that the required payment and interest owed is paid in a timely manner. The director will release the withheld State aid payment to the employer upon certification by the board of the receipt of the delinquent contribution.

This bill requires the board of trustees, at the end of six years following the enactment date of this bill, to conduct a review of the performance and funding levels of the retirement system, as compared to available market data, including, but not limited to, the performance of the State Investment Council and Division of Investment with regard to the investment of other State-administered retirement systems or funds and the Bloomberg Barclays Indices, and may, based on a majority vote of the authorized membership of the board, petition the Legislature to consider legislation that reverts control of the system to the Department of the Treasury, or other agency as the State deems appropriate.

The bill does not diminish the non-forfeitable right PFRS members have to receive the benefits provided under State law or affirmed by the State's courts. Nothing in the bill relieves the State or local government employers of any past, present, or future obligations to the PFRS or its members.

FISCAL IMPACT:

The OLS notes that the authority provided to the Board of Trustees of the PFRS under the bill may have a fiscal impact on the administrative costs of operating the PFRS. For instance, the bill requires the board to hire an executive director, actuary, chief investment officer, and ombudsman and retain experienced legal counsel. Administrative costs will depend on the board's future decisions, such as a decision of the board to employ additional staff instead of continuing to use the services of the Division of Pensions and Benefits in the Department of the Treasury.

Additionally, as the PFRS board chooses to make and execute agreements with public and private companies for the management of the investment of the PFRS, the administrative costs and investment expenses of the PFRS will be impacted.

The OLS notes that the bill may increase employer pension costs because the bill allows the board to reinstate cost of living adjustments for retirees and to alter any benefit set forth in statute for the PFRS. Since the bill requires the board of trustees to conduct a review of the performance and funding levels of the retirement system and allows the board to petition the Legislature to consider legislation that reverts control of the system to the Department of Treasury or another agency, if the PFRS underperforms over the six-year period, the State and local government employers may incur higher employer costs to fund the PFRS pension fund. The converse is also true, if the PFRS out performs over the six-year period, the State and local government employers benefit from higher returns and may experience lower costs to fund the PFRS pension fund.

As of June 30, 2016 (most recent), total administrative expenses allocated to the PFRS were $4,779,598, and investment management expenses and fees allocated to the PFRS were $1,837,898. Related consultant costs for an actuary, actuarial services, and other consulting costs for the PFRS were $1,188,034 in FY 2016. In FY 2016, the PFRS accounted for approximately 11 percent of total pension fund administrative expenses. Administrative costs for actuarial services (40 percent), medical reviews and exams (25 percent), elections (55 percent), and travel (27 percent) were higher, as a percentage of total PFRS administrative costs, than other PFRS administrative costs.

In addition, the bill requires local governments to make their annual payment to the PFRS on a quarterly basis, which may require additional short term borrowing by these governments. The bill permits a local government to reduce the pension payment by the additional borrowing cost.