LEGISLATIVE FISCAL ESTIMATE  
[First Reprint]  
SENATE, No. 2044  
STATE OF NEW JERSEY  
213th LEGISLATURE  

DATED: JUNE 30, 2008  

SUMMARY  

Synopsis: Provides additional retirement benefits to certain employees of State government; limits number of employees hired thereafter to fill vacancies created.  

Type of Impact: Public Employees’ Retirement System (PERS) and Teachers’ Pension and Annuity Fund (TPAF) increase; State expenditure decrease.  

Agencies Affected: Division of Pensions and Benefits, Department of the Treasury.  

Office of Legislative Services Estimate  

<table>
<thead>
<tr>
<th>Additional PERS and TPAF System Liability due to ERI</th>
<th>$254,880,785</th>
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<tr>
<th>Fiscal Impact</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY2011</th>
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<tbody>
<tr>
<td>State Savings</td>
<td>$77,095,175</td>
<td>Indeterminate - See comments below</td>
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</table>

- This bill implements an early retirement incentive (ERI) program for certain State Executive and Judiciary employees composed of three retirement options: (1) eligible employees who are 58 years of age with 25 years of service credit will receive an additional three years of service credit; (2) eligible employees who are 60 years of age with at least 20 years but less than 25 years of service credit will receive State paid post retirement medical benefits under the State Health Benefits Program (SHBP); (3) eligible employees who are 60 years of age with at least ten but less than 20 years of service credit will receive an additional pension amount of $500 per month for two years.  

- The bill limits the number of employees who may be hired by the Executive and Judicial Branches to fill the vacancies created by the early retirements to 10 percent of the total number of employees who retired. Hiring new employees not directly related to filling a vacancy created by the ERI program is not subject to the 10 percent limitation.  

- The bill prohibits eligible State Executive and Judiciary employees who retire under this measure from being employed or awarded a contract for professional services by the State or
Judiciary for period of three years after retiring unless they are employed on an hourly basis for emergency management purposes.

- The bill includes a delay in retirement provision for up to 11 months for eligible employees who applied for the ERI, under certain circumstances, at the discretion of the employer.

- The bill requires the State Treasurer to report to the Joint Budget Oversight Committee every six months for the first two years following the enactment of this bill, and annually thereafter on: (1) the impact of the ERI on the State workforce, including an analysis of the allocation of position reductions that occur in each department and division as a result of the bill; and (2) the plans adopted by each department to maintain the essential governmental service provided by that department.

- This bill results in first year implementation costs totaling $500,000.

**BILL DESCRIPTION**

Senate Bill No. 2044 (1R) of 2008 provides additional retirement benefits to eligible State employees in the Executive Branch and eligible Judiciary employees in the Judicial Branch of State government, as specified, who apply to retire on or after March 1, 2008 but by July 15, 2008 and retire no later than August 1, 2008. The bill establishes three early retirement incentive (ERI) options for eligible employees: (1) an eligible State Executive or Judiciary employee who is at least 58 years of age and has at least 25 years of service credit under the Public Employee Retirement System (PERS) or the Teachers’ Pension and Annuity Fund (TPAF) will receive an additional three years of service credit, and veterans who retire under the PERS or TPAF will receive an additional pension in the amount of $500 a month for 24 months following the date of retirement. The purchase of additional service credit will not be considered for meeting the eligibility requirements unless the eligible employee applying for the early retirement incentive program applied for the credit within 90 days prior to the effective date of this act and paid for the purchase, in full, by July 15, 2008.

In addition, the bill prohibits eligible State Executive and Judiciary employees who retire under this measure from being employed or awarded a contract for professional services by the State Executive or Judiciary for period of three years after retiring unless they are employed on an hourly basis for emergency management purposes. By virtue of applying for an early retirement incentive under this measure, the bill deems the filed application to retire as a consent agreement, on the part of the eligible employee, to allow the State department or the Judiciary for which the applicant works to delay retirement for up to 11 months. During that time, however, the employee will be able to accrue additional service credit. In order for the employer to delay an ERI applicant’s retirement, the employer must request approval from the Treasurer, in writing, explaining why the employee is essential to the needs of the Executive Branch. The bill requires the State Treasurer to report to the Joint Budget Oversight Committee every six months.
for the first two years following the enactment of this bill, and annually thereafter on: (1) the impact of the ERI on the State workforce, including an analysis of the allocation of position reductions that occur in each department and division as a result of the bill; and (2) the plans adopted by each department to maintain the essential governmental service provided by that department.

FISCAL ANALYSIS

EXECUTIVE BRANCH

A fiscal estimate was prepared by the Division of Pensions and Benefits for the introduced version of this bill. The Division of Pensions and Benefits estimated that first year savings in FY 2009 would be $77.1 million, savings in FY 2010 would be $93.5 million. The additional liability for the Public Employees’ Retirement System and the Teachers’ Pension and Annuity Fund was estimated to be $254.9 million. No updated information provided on the bill as amended.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services estimates first year savings and the additional pension liabilities resulting from the ERI to be $77.1 million and $254.9 million, respectively, based on previous information provided by the Division of Pensions and Benefits. The savings in the division’s estimate of the bill as introduced, were dependent on maintaining static current estimated employment levels. Under the first reprint, the fixed cap on the number of State workers that may be employed by each department, as specified, was eliminated which increases the uncertainty in employment levels in the succeeding years. First year payroll savings are calculable and reduced because of one-time costs such as sick leave and other benefit reductions. The OLS notes that it is not clear if the estimate of the first year savings takes into account employees that would have retired without the early retirement incentive. This is because employees who would have retired without the retirement incentive would have lower retirement benefits than those who retired under the ERI. Not deducting for the difference between normal retirement and the early retirement overstates the actual ERI savings. Savings beyond the first year are dynamic and sensitive to a variety of changes including: (1) vacancies that are created indirectly, meaning a vacancy in a position created directly or indirectly by promotion or transfer to fill a vacancy in position caused by the retiring employee; (2) unforeseen events which may cause or even require changes in the size of the workforce; (3) the changing nature of the economy; (4) the demand for government services; and (5) federal mandates. Thus, the savings in FY 2010 and succeeding fiscal years are not able to be determined. Finally, the OLS notes that with regard to the additional pension system liabilities, information was not provided regarding an amortization schedule that would identify the increase in the State’s annual contribution to the pension system.

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Legislative Budget and Finance Officer

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