

SENATE STATE GOVERNMENT, WAGERING, TOURISM &
HISTORIC PRESERVATION COMMITTEE

STATEMENT TO

SENATE, No. 5

with committee amendments

STATE OF NEW JERSEY

DATED: FEBRUARY 1, 2018

The Senate State Government, Wagering, Tourism and Historic Preservation Committee reports favorably and with committee amendments Senate Bill No. 5.

As amended, 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 of State government 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. The Division of Investment in the Department of the Treasury currently performs these functions. 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, and ombudsman.

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.

The bill requires the board to complete at least 16 hours of continuing education annually, in addition to any other training required by the bill; and requires the board to adopt an ethics policy that is comparable to the "New Jersey Conflicts of Interest Law."

The bill provides that the board may retain experienced legal counsel with demonstrated expertise in the law governing retirement systems for public or private sector employees. Additionally, under the bill, the board may retain an actuary that must have demonstrated experience in providing actuarial services to retirement systems for public or private sector employees. The actuary may be an employee of the board or an independent contractor retained by the board.

A permanent position of internal auditor would be established under the bill, and the internal auditor would be supervised by the executive director.

The bill prohibits the chair and vice-chair from disciplining or discharging an employee of the board unless authorized by a majority of trustees. Moreover, the bill prohibits the board from employing a trustee, and may employ a former trustee only if the

former trustee has not held the position of trustee for more than two years.

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.

This bill was pre-filed for introduction in the 2018-2019 session pending technical review. As reported, the bill includes the changes required by technical review, which has been performed.

COMMITTEE AMENDMENTS

The committee amended the bill to:

(1) prohibit the chair and vice-chair from disciplining or discharging an employee of the board unless authorized by a majority of trustees;

(2) allow the board of trustees of the PFRS to retain experienced legal counsel with demonstrated expertise in the law governing retirement systems for public or private sector employees;

(3) provide that the actuary may be an employee of the board or an independent contractor retained by the board, with demonstrated experience in providing actuarial services to defined benefit retirement systems for public employees;

(4) provide that the independent actuary must have demonstrated experience in providing actuarial services to retirement systems for public or private sector employees;

(5) provide that the board shall not employ a trustee and may employ a former trustee only if the former trustee has not held the position of trustee for more than two years;

(6) require the board to complete at least 16 hours of continuing education annually, in addition to any other training required by the bill;

(7) require the board to adopt an ethics policy that is comparable to the “New Jersey Conflicts of Interest Law”;

(8) revise the required experience for one of the Audit Committee members;

(9) establish a permanent position of internal auditor; and

(10) correct a typographical error.