LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 1017

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: NOVEMBER 4, 2020

SUMMARY

Synopsis: Provides retirement allowance after 20 years of service regardless of age for current members of PFRS who retire within two years.

Type of Impact: Annual State and local expenditure increases.

Agencies Affected: Department of the Treasury; local government entities.

Office of Legislative Services Estimate

Fiscal Impact	Year 1	Year 2	Year 3
State Cost Increase		Indeterminate	
Local Cost Increase		Indeterminate	

- The Office of Legislative Services (OLS) anticipates that this bill will result in an indeterminate increase in the annual contributions required to be paid by the State and local governments to the Police and Firemen's Retirement System (PFRS). In the analysis section of this document, the OLS calculates the impacts of the bill on annual retirement allowance payments, the present value of the unfunded liability, and the annual payment on the unfunded liability if all eligible PFRS members retire under the new retirement benefit provided by the bill. But the OLS does not have information on the number of eligible PFRS members who would actually retire and therefore cannot quantify the likely fiscal impacts of this bill with a reasonable degree of certainty. The OLS only notes that the increase in the unfunded liability resulting from this bill will be funded over time.

- For those local governments that pay for post-retirement medical (PRM) benefits for their retired employees, there would be PRM savings resulting from PFRS members who retire before becoming eligible for those benefits. For the State, there would also be some savings from PFRS members who retire before becoming eligible for PRM benefits. The OLS does not have the data to determine the State or local government PRM savings.

BILL DESCRIPTION

Under the bill, a person who is a member of the PFRS on the effective date of this bill may retire in the two-year period after the effective date, regardless of age, upon attaining 20 or more years of service credit. The member will receive a retirement allowance equal to 50 percent of the member's final compensation.

Under current law, a member must be 55 years of age or older to retire on a service retirement allowance of 50 percent of final compensation upon attaining 20 years or more of service credit. In addition, a 1999 law permitted members, who were already enrolled in PFRS at that time, to retire at any age with 50 percent of final compensation upon attaining 20 or more years of service credit.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS anticipates that this bill will result in an indeterminate increase in the annual contributions required to be paid by the State and local governments to the PFRS. The increase in the unfunded liability resulting from this bill will be determined by the actuary for the PFRS and will be funded over time.

The OLS estimates that this bill will increase retirement allowances (State and local) from the PFRS by at most $465.3 million annually ($409.5 million for local retirees and $55.8 million for State retirees) if all 7,630 (6,415 local and 1,215 State) eligible PFRS members retire under the new retirement benefit provided by the bill on the date of enactment. The OLS does not have information on the number who would do so and notes that it is not likely that all eligible members would retire under the new benefit. The present value of the unfunded liability for all members who are currently eligible to retire as of the effective date of the bill and who have 20 to 24 years of service is estimated to be $4.072 billion ($3.592 billion local and $479.4 million State). The annual payment on the unfunded liability would be $334.9 million per year ($295.6 million local and $39.3 million State) over 30 years at a discount rate of 7.3 percent. If all currently eligible members with 20 to 24 years of service opt for the new benefit, this bill would reduce the current funded ratio of the PFRS-Local from 71.7 percent to 65.6 percent and of the PFRS-State from 38.9 percent to 35.7 percent in the first year.

The bill also allows members who attain 20 years of service credit within 25 months after the effective date of the bill to retire after 20 years of service regardless of age with a benefit allowance of 50 percent of final compensation. The OLS estimates that this will increase retirement allowances (State and local) from the PFRS by an estimated $77.0 million ($74.5 million for local retirees and $2.5 million for State retirees) in year one and $154.0 million in each year starting with year two after the effective date of the bill ($149.0 million for local retirees and $5.0 million for State retirees) if all State and local PFRS members who become eligible retire in the two-year period under the new retirement benefit provided by the bill. The OLS does not have information on the number who would do so and notes that it is not likely that all eligible members would retire under the new benefit. The present value of the unfunded liability for these members who will have 20 years of service in year one of the two-year period is estimated to be $803.6 million

($646.9 million local and $156.7 million State) and $1.607 billion when the year two cohort is added ($1.294 billion local and $313.4 million State). The annual payment on the unfunded liability would be $66.1 million for the first year of the two-year period ($53.2 million local and $12.9 million State) over 30 years at a discount rate of 7.3 percent, and $66.1 million when the year two cohort is added ($53.2 million local and $12.9 million State).

Generally, the OLS calculates that for every one percentage point increase in the retirement rate of concerned officer categories in one year, total PFRS liabilities would grow by $40.7 million and the total annual contribution to that system by $3.3 million.

For those local governments that pay for PRM benefits for their retired employees, there would be PRM savings resulting from PFRS members who retire before becoming eligible for those benefits. For the State, there would also be some savings from PFRS members who retire before becoming eligible for PRM benefits. The OLS does not have the data to determine the State or local government PRM savings.

The conclusions in this analysis are predicated on a certain set of assumptions and based on the most recent PFRS actuarial valuations. If the assumptions change or additional information becomes available that would change the assumptions, then the conclusions may change.

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).