LEGISLATIVE FISCAL ESTIMATE TO

ASSEMBLY, No. 430

STATE OF NEW JERSEY

DATED: May 24, 1996

Assembly Bill No. 430 of 1996 provides employer-paid post-retirement medical (PRM) benefits under the State Health Benefits Program (SHBP) to members of the Police and Firemen's Retirement System (PFRS) who retire with 25 or more years of service credit or on an accidental disability retirement allowance. Qualified retirees would also be reimbursed by the employer for the premium charges under Part B of the Medicare program. In addition, this bill provides the same health benefits coverage to survivors of such PFRS retirees.

The bill also permits employers of retirees who elect to participate in the SHBP to provide and assume the cost of additional health benefits coverage (for example, dental costs, which are not now covered for retirees under the SHBP).

The bill includes a provision to cover the additional employer cost of providing this benefit by utilizing the reduced employers' contributions to fund the retirement system as a result of implementing section 16 of P.L.1994, c.62. That provision reduced the pension adjustment benefit annual inflation assumption and the average assumed percentage rate of salary increase used in calculating the pension system's liabilities.

At present, PFRS members employed by units of local government receive employer-paid health insurance coverage upon retirement through the SHBP or another plan only if their employer chooses to provide paid coverage. Under this bill all qualified PFRS retirees could participate in the SHBP at the expense of the retirement system (which means at the expense of the employer). Qualified retirees of non-SHBP participating employers could elect to accept SHBP coverage or to continue in their employer's program. State employee members of PFRS already receive State-paid PRM benefits: however, this benefit is not provided to survivors of such PFRS retirees.

The Division of Pensions and Benefits, in an earlier fiscal note to similar legislation (A1253 of 1992), stated that there are 9,215 local PFRS retirees with 25 or more years of service and 1,943 local PFRS disability retirees who would qualify for PRM coverage. (A1253 did not provide survivor benefits.) The division estimated the present-value liability for these individuals at $780 million. The division further noted that the present-value liability for local PFRS active members is an additional $1.3 billion for a total present-value liability of $2.1 billion. The division estimated the first-year cost (FY 1994) to the local employers at $92.3 million. The division further noted that this cost would increase to $97.1 million in FY 1995. These estimates

assumed that the 11,158 retirees who would be eligible for this benefit currently do not receive the benefit from their local government employer. These estimates further assumed that the additional liability would be pre-funded on an actuarial reserve basis similar to other pension liabilities.

The Office of Legislative Services (OLS) notes that recent legislation, P.L.1994, c.62, revised the prefunding schedule for PRM benefits in the other State-administered retirement systems to .5 percent of payroll plus the amount sufficient to pay the current (pay-as-you-go) premiums. Under this revised formula, the first-year cost, based on the division's FY 1994 estimate of 13,572 eligible retirees and survivors, would be an estimated $74.8 million.

Since this bill does not specify a funding methodology, the additional liability created by this legislation could be funded on a pay-as-you-go basis (versus advance funding). The OLS estimates the first-year cost (based on 11,764 retirees), for retirees only, on a pay-as-you-go basis at approximately $62.3 million. This cost will increase annually as both the number of eligible retirees and the cost of providing health benefits increase.

This estimate is based on approximately half of the retirees being 65 or older and eligible for Medicare and half of the retirees being under age 65. According to the division, the premium for participation in the SHBP in FY 1996 was approximately $5,960 for husband and wife coverage and $2,785 for single coverage under the Traditional Plan (Blue Cross/Blue Shield).

The OLS notes that there is currently no information available to indicate the number of employers who already participate in the SHBP or provide private carrier PRM coverage. The OLS estimates that approximately one-third of the retirees already have employer-paid PRM coverage so the incremental cost of this legislation on a pay-as-you-go basis would be approximately $41.5 million for the remaining two-thirds of the existing retired population.

The OLS further notes that since no other State-administered retirement system provides employer-paid PRM benefits to survivors, it is difficult to estimate the cost of providing this benefit. According to the July 1, 1994 actuarial valuation of the retirement system, the most recent one available, there are 2,078 beneficiaries (survivors) currently receiving a survivor's pension benefit. Since an estimated 87 percent of all PFRS retirees have 25 or more years of service or are retired on a disability pension, it seems reasonable that 87 percent of the survivors would also qualify. By applying this percentage to the 2,078 total survivors we can estimate that approximately 1,808 survivors would qualify for employer-paid PRM benefits. The first-year pay-as-you-go cost for this group, assuming they are all 65 years of age or older and eligible for Medicare, is approximately $3.7 million. This cost will increase annually as both the number of eligible survivors and the cost of providing medical benefits increase.

The OLS notes that although the bill does not specify a funding methodology (advance funding versus pay-as-you-go funding) for the additional liability created by this benefit, all of the State's major retirement systems prefund pension and cost-of-living adjustments (COLAs) and the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) prefund a portion of PRM benefits; in addition, advance funding is federally mandated by the Employee Retirement Income Security Act of 1974 (ERISA) for private industry.

The bill includes a provision to finance this benefit by utilizing the reduction in employer contributions to fund the retirement system as a result of P.L.1994, c.62. The OLS notes that P.L.1994, c.62 made several changes affecting several of the State-administered retirement systems. In regards to the PFRS, the law changed the funding methodology used to calculate the employers' contributions to fund the retirement system from entry-age to the projected unit credit method, reset the amortization period for the unfunded accrued liability, and established certain actuarial and economic assumptions normally adopted by the actuary and the board of trustees of the retirement system. The change in funding methodology to projected unit credit and the new amortization period do not reduce the liabilities or costs of funding the retirement system. These changes only affect the schedule of the employers' contributions to meet these liabilities similar to refinancing a homeowner's mortgage. The employer's contribution schedule is revised but the total cost is unchanged. Thus there are no "savings" from the adoption of P.L.1994, c.62 to offset the $65.9 million cost of providing employer-paid PRM benefits.

The legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.