LEGISLATIVE FISCAL ESTIMATE TO

# ASSEMBLY, No. 1853

# STATE OF NEW JERSEY

DATED: JULY 9, 1996

Assembly Bill No. 1853 of 1996 revises the retirement and survivorship benefits payable to retirants and beneficiaries under an employees' retirement system established in a city of the first class having a population of less than 300,000. It:

(1) increases from 50 percent to 55 percent of final pay the basic allowance payable to retirants with 20 or more years of service who have attained the age of 60. The allowance continues to be supplemented by an amount equal to 1 percent of such salary for each year of creditable service in excess of 20 years;

(2) increases the retirement allowance from 50 percent to 55 percent for a retirant with 25 years of service before the age of 60. The allowance continues to be supplemented by an amount equal to 1 percent of salary for each year of creditable service in excess of 20 years. Such pension, currently reduced by 5/12 of 1 percent for each month that the member lacks of being age 60, is reduced to 2/12 of 1 percent under this bill. If the member waits until age 60 to start collecting benefits, there is no reduction in benefits;

(3) the bill includes cost-of-living adjustments (COLAs) in determining the amount of pension for a death benefit provided to survivors of retirants. The current death benefit excludes such adjustments; and

(4) increases the annual adjustment (COLA) of retirement allowances and survivors pensions from 50 percent to 60 percent of the increase in the cost of living, as measured by the federal Department of Labor's Consumer Price Index.

The Office of Legislative Services (OLS) notes that the only pension system affected by this legislation is the Employees' Retirement System of the City of Jersey City. This retirement system is active with all new hires enrolled as members. The OLS notes that because of the significant changes made by this legislation, the actuary for the retirement system should be asked to prepare a new actuarial valuation to accurately estimate the costs of the additional benefits provided by this legislation.

According to the most recent actuarial valuation of the retirement system, dated December 31, 1992, there are 936 active members and 524 retirees and survivors receiving benefits. The system has total liabilities of $76.9 million. The OLS has calculated estimated costs for the following changes:

(1 & 2) changes the formula for the various types of retirement from 50 percent of the average annual compensation received in the last three years preceding retirement to 55 percent of the average annual compensation received: The OLS notes that changing the retirement benefit formula from 50 percent to 55 percent is a 10 percent increase in retirement benefits.

According to the valuation, the present value of benefits (future liabilities) for active employees is $45,523,037. A 10 percent increase in the benefits of active members ($45,523,037 x .1 = $4,552,304) is a $4,552,304 increase in the liabilities of the retirement system. If this additional liability is funded as part of the normal employer cost, the annual employer contribution would increase by $198,868 or 31.5 percent, from $630,772 to $829,640.

In addition, the penalty for retiring before age 60 (after 25 years of service) is reduced by 60 percent, from 5/12 of 1 percent to 2/12 of 1 percent for each month that the member lacks of being age 60. However, this office is unable to estimate the additional liability to the retirement system of this change.

(3) includes cost-of-living adjustments (COLAs) in determining the amount of pension for a death benefit provided to survivors of retirants. The current death benefit excludes such adjustments.

Upon the death of a member after his or her retirement, a death benefit is payable to the surviving widow, widower, minor children or dependent parents of the member, as the case may be. Under current law, the death benefit to eligible survivors is a pension equal to 50 percent of the member's pension at retirement. (The OLS notes that the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) do not provide a survivorship pension unless the retiree chooses a reduced pension.)

According to the valuation, the average retirement allowance, including COLA, for a retiree is $9,847. The average survivor's benefit is $4,002. Increasing the survivor's benefit to 50 percent of the average allowance, including COLA, would increase the average survivor's benefit 23 percent to $4,924.

This would increase the liability of the retirement system by $3,061,187. Funding this additional liability as part of the normal employer cost would increase the annual employer contribution by $132,383.

In addition, increasing the survivors pension to 50 percent of the average allowance, including COLA, increases the cost of the COLA benefits provided to survivors.

(4) increases the annual adjustment (COLA) of retirement allowances and survivors pensions from 50 percent to 60 percent of the increase in the cost of living, as measured by the federal Department of Labor's Consumer Price Index (CPI). (The Pension Adjustment Act provides for a 60% cost of living adjustment for members of the Public Employees' Retirement System (PERS), the

Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS) and the State Police Retirement System (SPRS).)

The OLS notes that changing the COLA to 60 percent (without changing the pension formula from 50 percent to 55 percent or increasing the survivors allowance) would be a 20 percent increase in the cost of the COLA.

The OLS estimates that the current liability for COLAs is $9,559,838. Increasing the COLA adjustment to 60 percent of the change in the increase in the cost of living, as measured by the CPI, or by 20 percent, would increase the COLA liability by $3,230,362. Funding this additional liability as part of the normal employer cost would increase the annual employer contribution by $139,699.

Finally the OLS notes that the additional cost of each change will increase approximately 6 percent per year as salaries increase.

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.