

LEGISLATIVE FISCAL ESTIMATE TO
ASSEMBLY, No. 1901
STATE OF NEW JERSEY

DATED: JULY 9, 1996

Assembly Bill No.1901 of 1996 provides that membership in the Public Employees' Retirement System (PERS) shall be optional for a special service employee who is employed under the federal Older American Community Service Employment Act. Special service employees employed under that federal law who are currently enrolled in the retirement system on the effective date of this act may terminate membership in the retirement system by making an application in writing to the board of trustees. Upon receiving the application, the board shall terminate enrollment in the system and the member shall receive a refund of his or her accumulated deductions as of the date of commencement of employment in a federal Older American Community Service Employment Act program. This refund of contributions shall serve as a waiver of all benefits payable to the employee, to any dependent or dependents, or to any beneficiary under the retirement system.

The Office of Legislative Services (OLS) notes that the federal Older American Community Service Employment Act is designed to promote useful part-time community service activities for unemployed low-income persons over the age of 55 with poor employment prospects. The law provides that these employees are not federal employees and they are not eligible for federal employee retirement benefits.

The OLS notes that under current law, public employees earning over \$1,500 per year are required to enroll in PERS and contribute 5.0 percent of their salary to fund the retirement system. The employer contribution, based on the March 31, 1995 valuation of the retirement system, is 1.36 percent of salary. This employer contribution is reimbursed from the federal funds available for this program.

Although the pension system will lose future employer and employee contributions for employees in this program, there will be no additional cost to the retirement system or the State or local government employers because these employees will not be eligible to receive a retirement benefit.

The OLS notes that although the bill provides for a refund of the accumulated deductions or employee contributions to fund the retirement system for existing employees, it does not specify if the refund is to include interest. The Pension Funds Revaluation Act of 1992 (P.L.1992, c.41) set the "interest rate assumption" for the various State-administered retirement systems at 8.75 percent. Under

current law, employees withdrawing from PERS service or who cease to be an employee for any cause other than death or retirement are entitled to the return of the employee's accumulated deductions (employee contributions) plus interest of 2.0 percent per annum. Current law also provides that no interest is payable to employees with less than three years of creditable service.

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.