

LEGISLATIVE FISCAL ESTIMATE TO
ASSEMBLY, No. 2223
STATE OF NEW JERSEY

DATED: DECEMBER 3, 1996

Assembly Bill No. 2223 of 1996 would allow the remaining members of the Passaic County Employees' Retirement System to remain in the retirement system if they become covered by Social Security (Old Age, Survivors, and Disability Insurance). Under current law, if members of the Passaic County retirement system choose to join Social Security, their retirement system would be terminated and they would be forced to enroll in the Public Employees' Retirement System (PERS). Federal law requires that eligible members of the retirement system vote as a group. This bill permits the members to authorize a Social Security referendum which would allow members of the Passaic County retirement system to vote to join Social Security without having the fund terminated if they so choose.

Social Security is a worker-employer-government insurance program, covering retirement, survivors', disability, and Medicare benefits. Participating employees and employers make two contributions: one for Social Security benefits and one for Medicare benefits. (Employees not participating in Social Security still contribute to Medicare.) The current tax rate for Social Security contributions is 6.2 percent of salary, up to a wage base of \$62,700. In general, a Social Security benefit is based on the participants' earnings averaged over the participants' working lifetime.

According to the most recent actuarial valuation of the retirement system, dated January 1, 1995, there are 24 remaining active members of the Passaic County retirement system. The salaries of these 24 members total \$1,383,918 for an average salary of \$57,663. Based on the current Social Security tax rate of 6.2 percent, the first-year cost to Passaic County of enrolling the remaining 24 members, assuming they all earn less than \$62,700 (the current Social Security wage base), would be \$85,803 ($6.2\% \times \$1,383,918 = \$85,803$). This cost would change each year, increasing as salaries and the Social Security wage base increase and decreasing as the remaining active members (who all have 29 or more years of service) retire.

Enrollment in Social Security would affect different members of the Passaic County retirement system differently and would not be equally attractive to all of them. Under federal law, 40 credits (ten years of work) are required in most cases to qualify for Social Security retirement benefits. Employees who have accumulated time in their Social Security account from prior employment or part-time employment would probably be interested in enrolling in Social

Security if they need additional credits to meet the 40 credits to qualify. Employees already meeting the 40-credit minimum would also enroll to earn additional credits or to enhance their Social Security benefits; the formula for calculating benefits is based on the employee's average annual lifetime salary.

Currently, members of the Passaic County retirement system would have to work part-time in a position covered by Social Security or retire from the county system and seek reemployment in a position covered by Social Security to meet the 40-credit minimum requirement or to enhance their average annual earnings.

Employees nearing retirement with little or no time accumulated in their Social Security accounts probably will not be interested in paying Social Security taxes for a benefit they will not qualify for.

This 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.