SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

# SENATE, No. 1906

with Senate committee amendments

# STATE OF NEW JERSEY

DATED: APRIL 17, 1997

The Senate Budget and Appropriations Committee reports without recommendation Senate Bill No. 1906 with amendments.

Senate Bill No. 1906, as amended, changes the value of the assets of the retirement systems to "full-market" value of assets, for the State and participating local governments, as of the valuation reports applicable to FY1998. This one-time accounting change from the current "market-related" value of assets (20 percent of full-market) to "full-market" immediately recognizes recent capital gains instead of recognizing those gains over five years, resulting in an increased value of the accumulated assets. For valuation reports applicable to FY 1999 and thereafter, the actuarial value of assets will revert to "market-related" value of assets.

The bill authorizes the State Treasurer to reduce the "normal contributions" of State and local employers to the systems, to the extent possible, from up to 100 percent of excess assets through FY2001, and on a declining maximum percentage of excess thereafter. In addition, the bill permits the State to pay its unfunded accrued liabilities under the various pension systems from any source of funds, including the proceeds of pension obligation bonds (POBs) to be issued by the New Jersey Economic Development Authority (EDA).

COMMITTEE AMENDMENTS

The committee amended the bill to:

* Include employers other than the State that are participants in the Public Employees' Retirement System or the Police and Fireman's Retirement System as beneficiaries of having the assets of the retirement systems set at full market value and of having any "excess valuation assets" applied to the reduction of their normal contributions to those retirement systems;

* Modify the percentages on the schedule for the maximum amount of any annual "excess valuation assets" to be applied to the reduction of normal contributions by the State or other employers (to 84% for valuation periods ending June 30, 2002, to 68% for valuation

periods ending June 30, 2003);

* Modify the description of the calculation of any unfunded accrued liability;

* Define "excess valuation assets" for valuation of assets to other employers.

* Provide during calendar years 1998 and 1999 for a reduction from excess valuation assets of the contributions by employees of the State and local employers representing 1/2 of 1% of the salaries of employees, and a similar reduction in contributions thereafter under certain circumstances.

FISCAL IMPACT

A fiscal note prepared by the Office of Legislative Services (OLS) on the unamended version of this bill along with its companion bill (Senate Bill No. 1905) outlines the information provided to date by the Department of Treasury on the impact of these bills if enacted. The department states that the unfunded accrued liability of the State pension systems is $3.2 billion, with an additional $1.0 billion projected future liability for cost-of -living adjustment (COLA) benefits payable to active employees. Under this bill as amended, the EDA would issue $2.75 billion in Pension Obligation Bonds (POBs) to "refinance" most of the $3.2 billion unfunded accrued liability of the State retirement systems; the $2.75 billion in bond proceeds would be deposited in the various pension funds. The principal and interest (debt service) on the proposed $2.75 billion POB issuance are estimated to total $12.1 to 12.3 billion, if the bonds are repaid with interest over 36 years. Refinancing the liability is estimated to result in savings of $45.5 billion to taxpayers in the years 2034 through 2056.

The debt service interest rate on the $2.75 billion in POBs is estimated to average 8.1 percent over the 36-year amortization period. The repayment schedule for the 2.75 billion in POBs is to be structured in a manner wherein the annual debt service on the POBs would "mirror" the annual State contributions that are to be provided to the retirement systems under current law. However, to reduce the level of debt service payments after fiscal year 2020, which are capped at an estimated $500 million annually, debt service payments in fiscal year 1999 through 2004 are required to be $25 million more than the annual State contributions to the retirement systems under current law.

An estimated $450 million of the $2.4 billion in "surplus assets" created by the change to "full-market" value of assets under the companion bill will be used to pay the portion of the $3.2 billion unfunded accrued liability not funded with the proceeds of the POBs ($3.2 billion - $2.7 billion = $450 million); $1.0 billion of the $2.4 billion in "surplus assets" will be used to pay the $1.0 billion projected

future liability for cost-of-living adjustment (COLA) benefits payable to active employees; and an estimated $647 million of the "surplus assets" would be applied to reduce the normal State contributions to fund the retirement systems in FY 1997 and FY 1998.

In addition to the $2.75 billion in bonds for the pension system, the companion bill (S-1905) permits borrowing for the cost of issuance which is estimated to be $15 million.

The amendment to this bill which provides in FY 1998 and 1999 a reduction from excess valuation assets of the contributions by employees of the State and local employers representing 1/2 of 1% of the salaries of employees is estimated to result in an annual loss of $63 million to the pension systems. Under certain circumstances, a similar reduction may be permitted in years following FY 1999.