LEGISLATIVE FISCAL ESTIMATE TO

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 2334

STATE OF NEW JERSEY

DATED: JANUARY 2, 1998

Senate Committee Substitute for Senate Bill No. 2334 of 1997 provides post-retirement medical (PRM) benefits in the State Health Benefits Program (SHBP) to retirees of the Police and Firemen's Retirement System (PFRS), the Consolidated Police and Firemen's Pension Fund (CP&FPF) and retirees of the Public Employees' Retirement System (PERS) whose service was in law enforcement or in a position eligible for participation in PFRS, and dependents of a qualified retiree, but not including survivors, regardless of whether the retiree's employer participated in the SHBP. The bill defines a qualified retiree as a retiree who retired with 25 or more years of service credit or on a disability retirement allowance.

The bill provides that the State shall pay 80 percent of the premium or periodic charges for the category of coverage elected by the qualified retiree under the State managed care plan (NJ Plus) or a health maintenance organization participating in the SHBP which provides services in all 21 counties, whichever provides the lower charge. The qualified retiree shall pay the difference between the premium or periodic charge for the coverage and the amount paid by the State.

The provisions of the bill, however, do not apply to (1) a retired State employee whose premium or periodic charges for benefits under the program are paid by the State; and (2) a retiree of an employer other than the State which already provides retiree coverage as part of a collective bargaining agreement.

The Office of Legislative Services (OLS) notes that, under current law, local governments have the option of providing health insurance coverage for retirees as part of each local government's collective bargaining agreement with the unions representing police and firefighters. (State employees already receive State-paid PRM benefits; however, this benefit is negotiable.) The negotiated agreements currently in place range from no employer contribution for PRM benefits to full employer-paid PRM benefits. As a result, it is impossible to estimate the number of qualified retirees who would elect to participate in this program at this time.

The OLS notes that PRM benefits are payable over the remaining lifetime of the retiree. Because PFRS members can retire at any age after 25 years of service at 65 percent of final compensation, these individuals could qualify for State-paid PRM benefits as young as age 45. The present-value cost of providing lifetime PRM benefits (NJ Plus or an HMO) to a PFRS member retiring at age 50, with the retiree paying 20 percent of the annual premium, is between $61,000 (for husband and wife coverage) and $72,000 (for family coverage).

According to the July 1, 1995 actuarial valuation of the retirement system, the most recent valuation, there are 15,609 retirees currently receiving a PFRS pension. The OLS estimates that approximately 86 percent of all PFRS retirees have 25 or more years of service or are retired on a disability pension. By applying this percentage to the estimated 15,609 retirees, we can estimate that approximately 13,424 retirees constitute the total current "universe" of potential PFRS qualifiers for State-paid PRM benefits. (The OLS notes that the PFRS totals include State and local government employees. The dollar estimates have been adjusted to recognize that State employees already receive State-paid PRM benefits.) In addition, there are 551 retirees currently receiving a CP&FPF pension and an unknown number of retirees from the PERS.

However, the bill excludes from eligibility a local PFRS retiree whose health care benefits were paid by a municipal or county government, and are still so being paid when this bill becomes effective. This exception is likely to disqualify a considerable percentage of current retirees from the State-paid program for retirees. No information has been made available to the OLS to indicate the number of local government employers who already provide health insurance through the SHBP or provide private carrier insurance. However, testimony offered by the New Jersey League of Municipalities suggests that between 60 and 70 percent of local public employers offer some type of PRM coverage to eligible retirees. If we assume that this percentage generally includes the larger municipalities, perhaps 80 percent of the eligible retirees already have employer-paid PRM coverage, leaving 20 percent not covered. Base on this assumption, the current universe of qualified retirees who would enroll in the State-paid program for retirees would be approximately 3,100.

The present-value cost of providing future PRM benefits to this estimated universe of qualified retirees, assuming all are enrolled in the State-paid program for retirees, would be between $188.3 million and $223.8 million. This cost would increase annually through inflation and as additional members retire and become eligible for this benefit.

According to the most recent actuarial valuation of the PFRS retirement system, approximately 1,150 members retire each year period with 25 or more years of service and 100 on a disability retirement allowance. (The CP&FPF is closed and there are no remaining active members.) Assuming 80 percent of the PFRS retirees receive employer-paid PRM benefits (and adjusting for State employees), then approximately 247 additional retirees would become newly eligible to receive this benefit annually.

The OLS notes that this bill does not specify a funding methodology to determine the annual State contribution to pay for this benefit. There are a variety of funding practices that could be used, ranging from pay-as-you-go financing to actuarial reserve funding (also called advanced funding or prefunding). The financing methodology chosen has a significant effect on the annual payment schedule. Under pay-as-you-go financing, the State appropriates sufficient funds each year out of current operating revenues to meet the current expenditures (the post-retirement medical premiums). Pay-as-you-go financing initially requires the lowest annual State appropriations; however, pay-as-you-go appropriations increase sharply over time as additional members retire and are eligible to receive this benefit.

An alternative to pay-as-you-go financing is actuarial reserve or advanced funding. Advanced funding is the systematic contribution of funds to the retirement system which together with earnings are sufficient to fund the value of the benefits earned by active employees in the current year. Advanced funding generally results in higher initial costs that remain relatively constant over time. All of the State's major retirement systems prefund pension and cost-of-living adjustments (COLAs); however, the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) prefund only a portion of PRM benefits.

On a pay-as-you-go basis, the first-year cost to the State, if 20 percent of the qualified retirees, as of June 30, 1995, elect to participate in the State plan, would be approximately $11.6 million. Retirements during the two years since the last actuarial valuation and the current year would add an additional $3.2 million, for a total first-year cost of $14.8 million.

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.