LEGISLATIVE FISCAL ESTIMATE TO

SENATE, No. 2362

STATE OF NEW JERSEY

DATED: JANUARY 13, 1998

Senate Bill No. 2362 of 1997 establishes an early retirement incentive program for State employees enrolled in the Public Employees' Retirement System (PERS) who were or are employed in an institution in the Department of Human Services. Specifically, the bill permits a State employee who was or is employed in an institution in the Department of Human Services during any part of the period commencing June 12, 1997, and ending February 15, 1998, to retire under existing PERS early retirement provisions, that is, before age 60, and to receive in retirement full or part State-paid health benefits under the State Health Benefits Program (SHBP) if the employee (1) on or before February 15, 1998, applies to retire, (2) retires on or before July 1, 1998, and (3) at the time of retirement, has attained 55 years of age and has accrued at least 22 years of service credit under the PERS.

The Division of Pensions and Benefits states that 286 individuals employed in institutions in the Department of Human Services are eligible for this benefit. The division calculates the additional pension liability, if all 286 individuals retire under the provisions of this bill, at $15 million. The annual State contributions to the retirement system would increase by approximately $700,000 per year to fund the additional pension liability. In addition, these individuals would qualify for State-paid managed care coverage or part State-paid Traditional Plan coverage under the SHBP earlier than they otherwise would have. The division estimates the first-year cost of providing post-retirement medical benefits, if all 286 individuals retire, at approximately $800,000. Therefore, the total first-year cost for pension and post-retirement medical benefits would be approximately $1,500,000. The cost of providing State-paid post-retirement medical benefits would increase annually with medical inflation.

The Office of Legislative Services concurs with the division's estimate, but notes that there could be savings to offset part of the cost of this benefit. The State would not have to contribute 6.2 percent of salary (up to the social security wage base of $65,400) and 1.45 percent of salary (there is no Medicare ceiling) for Medicare for the individuals who retire. In addition, the State would realize salary savings for every position that becomes vacant and is not filled, or turnover savings (salary differential) for each vacant position that is filled but with a lower-paid employee. Based on the $36,000 median salary for State employees, keeping all 286 positions vacant for a full-year would generate approximately $10.3 million in salary savings and approximately $800,000 in Social Security and Medicare savings. Based on these assumptions, all 286 positions would have to remain vacant for about 18 months to offset the additional liability of this bill.

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.