LEGISLATIVE FISCAL ESTIMATE

SENATE, No. 1017

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MARCH 25, 2020

SUMMARY

Synopsis:	Provides retirement allowance after 20 years of service regardless of age for members of PFRS.
Type of Impact:	State and local expenditure increase.
Agencies Affected:	Division of Pensions and Benefits in the Department of the Treasury; local government entities.

Office of Legislative Services Estimate

Fiscal Impact	**Year 1**	**Year 2**	**Year 3**
State Cost Increase		Indeterminate	
Local Cost Increase		Indeterminate	

- This bill will result in an indeterminate increase in the annual contributions required to be paid by the State and local governments to the Police and Firemen's Retirement System (PFRS).

- The increase in the unfunded liability resulting from this bill will be determined by the actuary for the PFRS and will be funded over time.

- The OLS estimates that this bill will increase retirement allowances (State and local) from the PFRS by $413.6 million annually ($366.8 million for local retirees and $46.7 million for State retirees) if all 6,881 (5,846 local and 1,035 State) eligible PFRS members retire under the new retirement benefit provided by the bill. The OLS does not have information on the number who would actually do so, and notes that it is not likely that all eligible members would retire under the new benefit.

- The present value of the unfunded liability for all members who could retire under the bill is estimated to be $3.981 billion ($3.533 billion local and $447.6 million State). The annual payment on the unfunded liability would be $331.9 million per year ($294.6 million local and $37.3 million State) over 30 years at a discount rate of 7.5 percent.

- According to the informal actuarial analysis provided by the Division of Pensions and Benefits, this bill would increase total PFRS liabilities by $77.1 million and the total annual State contribution to that system by $13.7 million, with the State paying for the local share. The actuarial analysis assumed that 2 percent of PFRS members who are 49 years-of-age and younger with 20 or more years of service and 3 percent of PFRS members who are between 50 and 54 years-of-age with 20 to 25 years-of-service would retire under a service retirement under this bill prior to reaching special retirement. The OLS notes that these percentages reflect the current retirement rates of these officer categories and that the actuarial analysis does not project that the bill would cause additional officers within the respective cohorts to retire earlier than they would under current law.

- For those local governments that pay for post-retirement medical (PRM) benefits for their retired employees, there would be PRM savings resulting from PFRS members who retire before becoming eligible for those benefits. For the State, there would also be some savings from PFRS members who retire before becoming eligible for PRM benefits. The OLS does not have the data to determine the State or local government PRM savings.

BILL DESCRIPTION

This bill provides an additional category of service retirement for a member of the PFRS. Under the bill, a member of the PFRS who is enrolled before or after the effective date of this bill may retire after the effective date of this bill, regardless of age, upon attaining 20 or more years of service credit and receive a retirement allowance equal to 50 percent of the member's final compensation.

Under current law, a member must be 55 years of age or older to retire on a service retirement allowance of 50 percent of final compensation upon attaining 20 years or more of service credit. In addition, a 1999 law permitted members, who were already enrolled in PFRS at that time, to retire at any age with 50 percent of final compensation upon attaining 20 or more years of service credit. This bill extends the annual retirement benefit of 50 percent of final compensation after 20 or more years of service to all PFRS members regardless of enrollment date and regardless of age at retirement.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a formal fiscal note for this bill. However, upon request, the Divisions of Pensions and Benefits in the Department of the Treasury provided an actuarial analysis indicating that this bill would increase total PFRS liabilities by $77.1 million ($66.9 million local and $10.2 million State) and the total annual State contribution to the PFRS by $13.7 million, with the State paying for the local share. The analysis assumes that 2 percent of PFRS members who are 49 years-of-age and younger with 20 or more years of service and 3 percent of PFRS members who are between 50 and 54 years-of-age with 20 to 25 years of service would retire under a service retirement under this bill prior to reaching special retirement.

OFFICE OF LEGISLATIVE SERVICES

This bill will result in an indeterminate increase in the annual contributions required to be paid by the State and local governments to the PFRS. The increase in the unfunded liability resulting from this bill will be determined by the actuary for the PFRS and will be funded over time.

The OLS estimates that this bill will increase retirement allowances (State and local) from the PFRS by $413.6 million annually ($366.8 million for local retirees and $46.7 million for State retirees) if all 6,881 (5,846 local and 1,035 State) eligible PFRS members retire under the new retirement benefit provided by the bill. The OLS does not have information on the number who would do so and notes that it is not likely that all eligible members would retire under the new benefit. The present value of the unfunded liability for all members who could retire under the bill is estimated to be $3.981 billion ($3.533 billion local and $447.6 million State). The annual payment on the unfunded liability would be $331.9 million per year ($294.6 million local and $37.3 million State) over 30 years at a discount rate of 7.5 percent. If all eligible members opt for the new benefit, this bill would reduce the current funded ratio of the PFRS-Local from 73.5 percent to 66.9 percent and of the PFRS-State from 37.6 percent to 34.5 percent in the first year.

The OLS notes that the percentages of PFRS members that would retire after the bill's enactment reflect the current retirement rates of these officer categories and that the actuarial analysis does not project that the bill would cause additional officers within the respective cohorts to retire earlier than they would under current law. The OLS calculates that for every one percentage point increase in the retirement rate of concerned officer categories, total PFRS liabilities would grow by $38.5 million and the total annual State contribution to that system by $6.85 million.

For those local governments that pay for PRM benefits for their retired employees, there would be PRM savings resulting from PFRS members who retire before becoming eligible for those benefits. For the State, there would also be some savings from PFRS members who retire before becoming eligible for PRM benefits. The OLS does not have the data to determine the State or local government PRM savings.

The conclusions in this analysis are predicated on a certain set of assumptions and based on the most recent PFRS actuarial valuations. If the assumptions change or additional information becomes available that would change the assumptions, then the conclusions may change.

Section: *State Government*

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.)