

**Testimony of Treasurer Bradley Abelow**  
**Senate Budget and Appropriations Committee**  
**Pension System Funding and Accounting Practices**  
**April 11, 2007**

Good morning.

I would like to make a brief introductory statement and then ask my colleague, Fred Beaver, Director of the Division of Pensions to provide a more thorough overview of the pension system and the issues confronting the system. As many of you will recall, Treasury and the Division of Pensions and Benefits have, over many years, chronicled the good, the bad and the ugly of the State pension system. The State's objective is to maintain a pension system whose assets are roughly sufficient to meet the present value of the estimated obligations to provide agreed upon retirement benefits to our public employees and retirees.

The pension funds allow us to meet our retirement obligations to teachers, judges, prosecutors, the state police, local police and firefighters as well as other State employees. It is also important to note that, once vested, the pension benefits granted to current employees are guaranteed to them by law and may not be reduced.

To the degree that the actuarially determined obligations of the pension systems exceed the value of the assets, we have a gap that we refer to as an unfunded liability.

Around this time last year, we learned that the unfunded liability for the combined systems rose from \$12 billion, as of June 30, 2004, to \$18 billion, as of June 2005. This year, that gap has widened even further to \$24.8 billion. In addition to the unfunded pension liability, our actuary's preliminary estimate of the State's future liability for post-retirement medical benefits for current and future retirees is a staggering \$78 billion. This expense remains a pay-as-you go item and the actual expense incurred in each year must be appropriated by the Legislature.

The reasons for the under-funded position of the pension system are well-known. Stated simply, New Jersey has not appropriated sufficient cash contributions necessary through the State budget to meet the long-term actuarial growth assumptions of the system. Over a period of years, stretching back to the 1990's, the State has relied on various methods to avoid making adequate cash contributions into the pension funds, while systematically increasing pension benefits. Investment earnings have simply not been able to keep pace with the combination of insufficient funding, increased benefits, longer retiree life spans and a growing population of covered employees.

The accrued liability has more than doubled over the last ten years, from \$49 billion in 1996 to \$110 billion in 2006 – a \$60 billion increase. While over the last decade, the market value of assets has risen by only \$27 billion.

Since taking office, Governor Corzine has made shoring up the pension system a top policy and budget priority. The fiscal year 2007 budget included an appropriation of cash for the pension funds that exceeded cash contributed to the systems over the previous 10 years – combined.

The Governor has proposed a larger contribution for FY 2008. The contributions enacted in 07 and proposed in 08 total about \$2.2 billion. That represents 36 percent of the \$6.1 billion in cash contributions that have been made since FY 1990 and is equal to the amount contributed since FY 1993.

Let me state that again. The \$2.2 billion in cash contributions for FY 07 and FY 08 equal the entire amount of cash contributed by the State from FY 1993 to FY 2006.

Just as the Legislature joined him in appropriating more than \$1 billion in cash contributions last year, the Governor asks for your support in continuing to address this issue by appropriating funds as proposed for the next budget.

Contributions alone -- and this year's proposed contribution is only 50 percent of the amount that is actuarially defined as full funding -- won't solve the problem of pension under-funding. Along with consistent cash contributions the state must do more to enhance the performance of the pension's investments and seek changes that control the long-term costs of the system.

We are making progress in those two areas. Our pension portfolio is now more diversified, with an asset base that can better meet the long term obligations of the pension system. The Governor has also proposed changes in the pension system for new employees that help control long-term liabilities by raising the retirement age and capping benefits for high earners in a way that will eliminate some of the worst abuses of padding, tacking and boosting.

Whatever changes evolve, there is one constant – the reporting of the complex accounting for our pension system.

The financial position of the systems funds is transparent and stated in various publications in accordance with required accounting standards.

System values are constantly measured and reported to the board of trustees of each of the retirement systems. Actuaries provide monthly reports to the boards. The information is reviewed and certified by independent auditors.

The State Auditor, appointed by the Legislature, attests to the accuracy of the information. This information is provided to employees, retirees and the public through actuarial reports, accounting reports, the State budget, the State's financial reports, and in various other disclosures, such as bond offering statements.

In addition, the governor has gone out of his way to highlight the funding status of the pension funds in his budget addresses and many town hall meetings across the state devoted to discussion of budget issues.

In short, Governor Corzine and this administration are committed to preserving and protecting the state's retirement systems. Our current funding problems have been created by a combination of under-funding and expanding benefits over a 20-year period – spanning Republican and Democratic administrations. The way forward requires a commitment to steady cash funding of the system, improved investment performance and mutually agreed steps to control growth in liabilities in the future. There is no quick fix and the time is well past to revert to sweeping the problem under the rug.