Discussion Points

GENERAL GOVERNMENT SERVICES

Property Rentals

1. The FY 2014 Governor's Budget recommends a total funding level of $227.3 million for Property Rentals, a decrease of $6.8 million, or 2.9 percent. This reduction is due to changes in lease costs and efficiency initiatives as well as debt service savings from the expected refunding of Greystone Psychiatric Hospital bonds. Changes in the Property Rentals account reflect increases or decreases in costs directly related to the rental of real property for the conduct of State business. Factors causing changes in the appropriation include the amount and gross cost of office space and other property rented; Economic Development Authority debt service payments for capital lease agreements for various facilities and facility improvements that the EDA has financed for the State; Other Debt Service Leases and Tax Payments for the payment of debt service costs, taxes, and payments in lieu of taxes (PILOTS) for facilities financed by independent public entities and occupied by State agencies.

The FY 2013 budget assumed that only a third of the savings from the Quakerbridge Plaza lease negotiations were realized in FY 2012, with the balance expected to be realized in FY 2013. The FY 2013 budget also projected lease savings of $11.2 million, consisting of $6.1 million for 24 lease renegotiations, $3.5 million for eleven lease terminations, and $1.6 million for reduced lease costs associated with five police barracks that were purchased by the State. The FY 2013 budget did not assume any significant relocations, expansions, or contractions.

- ***Question:*** **Were the projected FY 2013 Quakerbridge lease savings realized? If not, please explain why not. Were the $11.2 million in lease savings initiatives realized? If not, please explain why not. Are there any significant relocations, expansions, or contractions planned for FY 2014? If so, please summarize each one and provide an estimate of the associated cost impact.**

  Answer: The Quakerbridge lease savings were realized in FY 2013. FY 2013 lease savings initiatives of $11.2 million were realized. The Division of Property Management and Construction (DPMC) presently has one significant consolidation plan for FY 2014 which involves using the State-owned facility which housed the operations of the former New Jersey Network (NJN) as office space for lease consolidation savings. The current plan is to make some short-term improvements to facilitate moving out of existing leases at the end of the calendar 2013, upon lease expiration. The annual lease costs are approximately $2.6 million. DPMC will use some of the lease savings to fund roof and mechanical equipment improvements.

Discussion Points (Cont'd)

Workers' Compensation

2. The State is self-insured for workers' compensation payments made to State employees for work-related injuries. Under current law, the Workers' Compensation Self-Insurance Fund provides funding for the payment of direct costs of legal, investigative, administrative, and medical services related to the investigation, mitigation, litigation, and administration of claims against the fund. Factors that contribute to changes in workers' compensation costs include changes in the number of claims, medical costs, and disability rates. According to the Division of Risk Management, workers' compensation costs have risen steadily in recent years because of the escalating expense of medical care, statutory increases in the yearly rates for temporary, permanent partial, and permanent total disability benefits, and the transfer of the State Sick Leave Injury (SLI) program to the Workers' Compensation program. The table below confirms that from FY 2007 to FY 2012 costs increased by $23.2 million, an average annual percentage increase of 6 percent.

Workers' Compensation Costs FY 2007 through FY 2014								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013(1)**	**2014(2)**
Appropriations	$64.7	$64.7	$67.7	$63.7	$73.7	$101.20	$102.9	$92.9
Reappropriations	$ 0.72	$0.491	$0.907	$ 0.0	$0.016	($ 10.0)	$ 0.0	$ 0.0
Supplemental Appropriations	$ 2.5	$ 3.0	$ 0.0	$ 4.8	$13.6	$ 0.0	$ 0.0	$ 0.0
Transfers In	$ 1.5	$ 3.74	$ 4.92	$11.2	$0.856	$ 1.0	$ 0.0	$ 0.0
Expenditures	$69.0	$71.0	$73.4	$79.7	$88.1	$ 92.2	unknown	unknown
Carry forward	$0.491	$0.907	$ 0.0	$0.016	$0.026	$ 0.0	unknown	unknown

Notes: (1) Adjusted; (2) Proposed.

- ***Questions:*** **Please discuss the trend(s) in worker's compensation costs. Please provide an overview of the administration of workers' compensation claims, including a list by department or agency of the number of employees and job title or description of employees receiving worker's compensation over the past five fiscal years. Please provide statistics for the past five years showing the number of claims filed by State workers, claims disposed, total and average awards, average age of persons awarded disability, and other relevant program data. Are people still receiving Sick Leave Injury benefits? If so, how many people remain in the program, what are the program costs, and when will the program finish? By how much will expenditures in the workers' compensation program be reduced once the SLI program is completed?**

  Answer: The chart below indicates the number of workers' compensation claims and the cost components of those claims for fiscal 2008 through 2012. Claims are assigned to the department incurring those claims at the time of claims reporting. Cost components are medical expenses, expenses to adjudicate claims including petitioner attorney fees, the cost of temporary wage replacement benefits and the cost of court awards for permanency of the injury.
  Average claimant age each year is:

FY 12	FY 11	FY 10	FY 09	FY 08

Discussion Points (Cont'd)

44.8	44.3	44.1	43.0	42.5

The occupation codes with the highest frequency of claims, based on an annual average over the Period FY 2008 through FY 2012 are:

Occupation Code	Claims Filed, 5 Year Average	Percentage of Total	Occupation
04112	518	9.5%	Human Services Assistant (Nurses Assistant in a Residential Health Care Facility)
32642	407	7.5%	Senior Corrections Officer
04143	367	6.7%	Cottage Training Technician (Assists Residents in Facilities for the Developmentally Disabled)
04116	210	3.8%	Human Services Technician (Participates in patient care plan and implementation in a Residential Health Care Facility)
03853	161	3.0%	Head Nurse (In a State hospital or medical center)

Sick Leave Injury:

For claims occurring before 7/1/11, employees could be entitled to SLI for up to 12 months. By 7/1/12, most SLI claims were concluded. However, collective bargaining agreements that were effective until 7/1/12 contained SLI entitlements that were paid in FY 2013. SLI case appeals decided after the 7/1/11 or 7/1/12 cut-off dates extended the 12-month run-off period. SLI is now effectively concluded, with less than $177,000 spent over the last 12 months, and $0 spent last month.

SLI was replaced with temporary workers' compensation benefits, serving to increase workers' compensation costs.

Claims frequency and open claims:

Workers' compensation claims have a two year statute of limitations from the date of last treatment, and frequently reopen after closure. There is no business purpose to track closures by year, but we track the current inventory of open claims each month.

Performance Indicator	February 2013	March 2013	% change	12-month rolling average
New Claims Reported	382	345	-9.69%	431
Injury Rate per Employee	6.00%	5.42%	-9.69%	6.77%
Total Open Claims	10,481	10,674	1.84%	11,089

Discussion Points (Cont'd)

New Jersey Performing Arts Center

3. State appropriations for the New Jersey Performing Arts Center (NJPAC) are used to pay the State's debt service obligations pursuant to a lease with the New Jersey Economic Development Authority (EDA) for real property, infrastructure, and the Performing Arts Center building. Budget language provides for the appropriation of additional sums as may be necessary to "pay debt service for the New Jersey Performing Arts Center." On September 18, 2012, a supplemental appropriation for $951,569 for the New Jersey Performing Arts Center was requested "to support debt service costs." It appears that the costs supported were not debt service on EDA or other State supported bonds, but borrowing costs incurred by the Performing Arts Center through its day to day operations, such as interest on a line of credit.

- ***Question:*** **Please confirm whether the OLS assumption about the supplemental appropriation is correct. If so, does the Administration believe that this type of financial support is consistent with what the Legislature intended as "debt service"? As an arts organization, did NJPAC seek increased operating funds from other sources of support the State provides to other arts organizations? If so, what were the results? What change(s) in the Performing Arts Center's financial condition or outlook justify the commencement of this type of operating support? Is this likely to be a recurring need on the part of the Performing Arts Center?**

  Answer: The supplemental appropriation to NJPAC supported a range of debt service obligations. These included debt service costs of a loan from JP Morgan that financed building construction costs ($588k); debt service on municipal bonds that financed a parking garage built in partnership with the City of Newark ($226k); debt service on a UEZ loan for real estate development costs ($7k); debt service on short-term financing of insurance premiums ($80k); and approximately $50k in interest costs on short-term lines of credit.

  NJPAC received approximately the same amount of funding from State of New Jersey arts and cultural programs in Fiscal Year 2013 as in Fiscal Year 2012 – a total of $1.09 million in Fiscal Year 2012, and $1.07 million in Fiscal Year 2013 (funding in both years from the Council on the Arts Cultural Grants program and from National Endowment for the Arts funds and State matching, also awarded by the Council on the Arts; and in Fiscal Y 2012 from the New Jersey Cultural Trust).

Discussion Points (Cont'd)

Liberty Science Center

4. Recommended FY 2014 appropriations for support of the Liberty Science Center (LSC) are $11 million, about the same as in FY 2013 but nearly $2 million less than FY 2012 expenditures. Under budget language applicable to this appropriation, State funding meets the costs not only of debt service on bonds issued by the NJ Economic Development Authority to construct and expand the Center, but also of the Center's operations. The portion of funding for operations is to be determined under an agreement between the Center and the State Treasurer. According to the Fiscal Year 2012 Debt Report, received from the Office of Public Finance in January 2013 by the Commission on Capital Budgeting and Planning, debt service on LSC bonds totals $7.426 million in FY 2012, $7.39 million in FY 2013 and $7.35 million in FY 2014. The extent to which appropriation exceed debt service costs presumably represents operating support for LSC.

- ***Question:*** **Please indicate what portion of FY 2012, FY 2013 and FY 2014 funding is for debt service and what portion is for Liberty Science Center operations. Please provide a copy of all agreements between the LSC and the State Treasurer pursuant to which operating costs were or will be funded by the State in FY 2012, FY 2013 and FY 2014. What percentage of the LSC's total operating resources, and for which fiscal years of the LSC, will be met with State funds from FY 2012, FY 2013 and FY 2014, respectively? Given that debt service on LSC bonds is a known amount, absent refunding of those bonds, and that supplemental appropriations for LSC funding were approved in both FY 2011 and FY 2012, how likely is it that the adjusted FY 2013 appropriation and the recommended FY 2014 appropriation are sufficient to adequately support the LSC?**

Answer: The amounts of Liberty Science Center Debt Service, by fiscal year are:
FY 2012 $7,426,000
FY 2013 $7,390,000
FY 2014 $7,350,000

The amount of the recommended appropriation that supports operations is:

FY 2012-- $3,600,000 (21% of expenditures)
FY 2013-- $3,600,000 (19% of projected expenditures)
FY 2014-- $3,600,000 (17% of projected expenditures)

Copies of the agreements with Liberty Science Center are attached.

We believe that the FY 2013 adjusted appropriation will be adequate to support the Liberty Science Center, and the FY 2014 recommendation should be adequate for operational support in the coming fiscal year.

Discussion Points (Cont'd)

Life Safety and Emergency Projects-Statewide

5. Current law requires the Commission on Capital Budgeting and Planning (CCBP) to prepare an annual State Capital Improvement Plan containing proposals for State spending for capital projects. Copies of the plan are required to be submitted to the Governor and the Legislature no later than December 1 of each year. The Interdepartmental Accounts portion of the capital budget request to the CCBP for FY 2014 included $58.2 million for projects administered by the Division of Property Management and Construction for maintenance of buildings in the Capitol Complex, consisting of $31.1 million for preservation, $1.7 million for compliance, $1.8 million for environmental, $13.6 million for construction and $10 million for energy improvements. CCBP staff recommended against funding this request, but recommended in favor of funding about $17.7 million for projects in several other departments (Children and Families, Human Services, Law and Public Safety and the Juvenile Justice Commission), which do not appear to have been included in the FY 2014 budget for those departments.

The FY 2014 budget recommends an appropriation of $10 million for "Life Safety and Emergency Project-Statewide", an appropriation that in the past has funded fire code compliance, emergency, and life safety capital projects. The budget (footnote (a), p. D-433) indicates that another $17.1 million will be made available for "Statewide Fire, Life Safety and Renovation Projects" from non-state sources; this is the same footnote included in the FY 2013 budget and some prior budgets as well.

- ***Question:*** **What is the spending plan, i.e., projects and project costs, for the $10 million in recommended funding for "Life Safety and Emergency Project--Statewide"? For the $17.1 million in non state funds for "Statewide Fire, Life Safety and Renovation Projects"? Does the Administration intend to fund projects that were prioritized by the CPBC process before other projects? What is the impact in FY 2015 – completion costs, operating costs, operating savings of each project included in the spending plan?**

  Answer: Every year, the New Jersey Commission on Capital Budgeting and Planning and the Office of Management and Budget review a large number of capital requests submitted by State agencies. Per the Fiscal Year 2014 State Capital Improvement Plan, capital requests totaled $2.7 billion. The Governor's Fiscal 2014 Detailed Budget recommends $1.4 billion in funding.

  Due to historic and ongoing resource constraints, the Commission and OMB have been constrained to recommend funding for projects that are mandated by statutes, projects for which federal funds are available, requests that generate federal matching funds, proposals essential to the protection of life/safety and preservation of State assets, and capital needs critical for the continuance of essential programs and services. With respect to the protection of life/safety, the Commission and OMB have only been able to recommend funding for the most extremely urgent proposals. The proposed $10 million increase will permit the Commission and OMB to reach slightly beyond the $17.1 million in non-state resources to fund a small portion of long-term, outstanding needs that are demonstrably necessary and appropriate.

Discussion Points (Cont'd)

EMPLOYEE BENEFITS

Pensions

Savings From Pension Reform.

6. P.L.2011, Chapter 78 makes various changes to public employee pension benefits in New Jersey in terms of increased member contributions; funding changes; benefit changes; and plan governance. The law provides for increases in the employee contribution rates for: (1) the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) from 5.5 percent to 6.5 percent plus an additional one percent phased in over seven years beginning June 29, 2012;[1] (2) the Judicial Retirement System (JRS) from three percent to 12 percent phased in over seven years; (3) the Police and Firemen's Retirement System (PFRS) (and for members of the PERS Prosecutors Part) from 8.5 percent to 10 percent; and (4) the State Police Retirement System (SPRS) from 7.5 percent to 9 percent. Under the law, the State will no longer provide the automatic cost-of-living adjustment (COLA) to current and future retirees. Based on projections developed by the actuaries, the Division of Pensions and Benefits estimates that total State savings attributable to the changes to employee contributions and the elimination of the retiree COLA will be $22 million in FY 2012, $53 million in FY 2013, and $94 million in FY 2014. Local savings attributable to the changes to employee contributions and the elimination of the retiree COLA are estimated to be $267 million in FY 2012, $370 million in FY 2013, and $494 million in FY 2014.

- ***Question:*** **Have the projected State and local savings estimates changed over the current fiscal year? If so, what are the total current projected State savings and to what are the total current projected local savings attributable? Please provide (1) the changes in employee contributions in total and for each retirement system and (2) the elimination of the COLA for FY 2013, FY 2014, and FY 2015? What factors, e.g., salaries, contract negotiations, and retirements underlying the estimate changed to affect the projected savings? Please provide a chart illustrating State and Local Pension Costs – Baseline compared to Pension Reform Fiscal Year 2012 to Fiscal Year 2015 for each of the State-administered Retirement Systems and the system as a whole. Please provide the most recent 30-Year Fund Projection.**

  Answer: Contained herein is an updated and expanded chart of the projected savings from the pension reform measures for the five active pension plans. The chart shows the projected savings for FY 2012 through FY 2015 for the individual Pension Plans and the aggregate State and local savings. In total, projected State savings from FY 2012 to FY 2015 is $561 million while the local employer savings is projected to be $1.863 billion. Please note: the State savings is much lower as compared to the local savings as a result of the seven-year phase-in of required contributions on the State side.

  The increase in the savings estimates is due to the availability of more current information. The economic assumptions used in the actuarial valuations were

[1] The employee contribution rate will increase each July first for the next seven years until the full 7.5 percent contribution is reached in 2018 (6.64 percent in July 2012, 6.78 percent in July 2013, 6.92 percent in July 2014, 7.06 percent in July 2015, 7.20 percent in July 2016, 7.34 percent in July 2017, 7.50 percent in July 2018).

Discussion Points (Cont'd)

revised effective with the July 1, 2011 actuarial valuations, which lowered State and local employer contributions for FY 2013 and increased the savings estimates. Employer contributions for FY 2014 were updated based on the July 1, 2012 actuarial valuations. The July 1, 2012 valuations also reflected changes to the economic assumptions which lowered State and local employer contributions. The change in the savings estimate for FY 2014 is also attributable to variances between assumptions made by the actuary to develop last year's estimates and actual experience as of July 1, 2012 as reflected in the 2012 valuations.

Please see the attached chart for an updated 30-year projection of employer pension contributions which compares the baseline contribution amounts, determined in 2011 prior to pension reform, to recently developed future contribution amounts based on the July 1, 2012 actuarial valuations.

State & Local Employer Pension Costs - Baseline Compared to Pension Reform
Fiscal Year 2012 to Fiscal Year 2015

In Millions

Baseline

State	FY12	FY13	FY14	FY15	4-YR Total
PERS	$118	$274	$450	$648	$1,490
TPAF	312	680	1,123	1,628	3,743
PFRS	54	119	193	277	643
SPRS	16	39	62	87	204
JRS	6	12	21	30	69
Total	$506	$1,124	$1,849	$2,670	$6,149
Local					
PERS	$819	$936	$1,008	$1,078	$3,841
PFRS	950	1,033	1,107	1,174	4,264
Total	1,769	1,969	2,115	2,252	8,105
Grand Total	$2,275	$3,093	$3,964	$4,922	$14,254

Based on Reform

State	FY12	FY13	FY14	FY15	4-YR Total
PERS	$125	$264	$450	$640	$1,479
TPAF	287	615	989	1,425	3,316
PFRS	54	112	171	241	578
SPRS	13	26	46	66	151
JRS	5	12	19	28	64
Total	$484	$1,029	$1,675	$2,400	$5,588
Local					
PERS *	$776	$741	$823	$879	$3,219
PFRS *	736	750	752	785	3,023
Total	1,512	1,491	1,575	1,664	6,242
Grand Total	$1,996	$2,520	$3,250	$4,064	$11,830

Baseline vs. Reform

State	FY12	FY13	FY14	FY15	4-YR Total
PERS	$7	($10)	$0	($8)	($11)
TPAF	(25)	(65)	(134)	(203)	(427)
PFRS	-	(7)	(22)	(36)	(65)
SPRS	(3)	(13)	(16)	(21)	(53)
JRS	(1)	-	(2)	(2)	(5)
Total	($22)	($95)	($174)	($270)	($561)
Local					
PERS	($43)	($195)	($185)	($199)	($622)
PFRS	(214)	(283)	(355)	(389)	(1,241)
Total	(257)	(478)	(540)	(588)	(1,863)
Grand Total	($279)	($573)	($714)	($858)	($2,424)

* FY14 local PERS and PFRS employer contributions appearing in the July 1, 2012 actuarial valuation reports were adjusted upward by $3 million for locations who failed to file timely reports of contributions.

Funded Ratio

7. One objective of P.L.2011, Chapter 78 was to improve the funded ratio of the pension plans.

- ***Question:*** **Please discuss the current level of the funded ratio relative to the funded ratio as of July 1, 2012 and explain the change.**

Answer: The actuarial value of assets and the actuarial accrued liabilities for each of the defined benefit plans, the two components required to calculate the funded ratio, are measured as of June 30th of each year and are disclosed in the annual actuarial valuation reports for each plan. The intricacies involved in the measurement of plan assets and liabilities preclude the calculation of funded ratios for dates other than June 30th. The aggregate funded ratio of the defined benefit pension plans decreased from 67.5 percent as of June 30, 2011 to 64.5 percent as of June 30, 2012. The aggregate funded ratio applicable to the State's liabilities decreased from 60.8 percent to 56.7 percent during this period, and for local liabilities, the funded ratio decreased from 77.5 percent to 76.1 percent (see **Table 3**). The primary reasons for the reduction in the funded ratios are: 1) the continued recognition of prior years investment losses resulting

Discussion Points (Cont'd)

from an asset valuation method which recognizes changes in the market value of plan assets over a 5-year period, and 2) increased liabilities resulting from net actuarial gains and losses during the plan year (i.e. actual plan experience differed from actuarial assumptions). The funded ratio applicable to the State liabilities was also significantly impacted by the phase-in of the State's full actuarially recommended contribution over 7 years pursuant to P.L. 2010, c. 1.

Question: Please quantify the changes in aggregate actuarial assets and liabilities due to the increased contributions and the suspension of the COLA.

Answer: Increased members contributions and the suspension of COLA are attributable to the pension reforms adopted under P.L. 2011, c.78. The projected estimated actuarial value of assets and liabilities of the State prior to the adoption of Chapter 78's reforms and the actual actuarial valuation of assets and liabilities as reported in the July 1, 2012 valuation reports are as follows:

Table 1

	Valuation Date 7/1/2012 (in millions)
Actuarial Value of Assets - State: Projected Pre-Pension Reform	$ 44,564
Actuarial Accrued Liability - State: Projected Pre-Pension Reform	$ 91,987
Total Actuarial Value of Assets - State: Actual	$ 45,064
Total Actuarial Accrued Liability - State: Actual	$ 79,434
Difference	
Actuarial Value of Assets - State	**$ 500**
Actuarial Accrued Liability - State	**$ (12,553)**
Actuarial Value of Assets - Local: Projected Pre-Pension Reform	$ 41,481
Actuarial Accrued Liability - Local: Projected Pre-Pension Reform	$ 61,799
Actuarial Value of Assets - Local: Actual	$ 40,875
Actuarial Accrued Liability - Local: Actual	$ 53,714
Difference	
Actuarial Value of Assets - Local	**$ (606)**
Actuarial Accrued Liability - Local	**$ (8,085)**
Actuarial Value of Assets - State and Local: Projected Pre-Pension Reform	$ 86,045
Actuarial Accrued Liability - State and Local: Projected Pre-Pension Reform	$ 153,786
Actuarial Value of Assets - State and Local: Actual	$ 85,939
Actuarial Accrued Liability - State and Local: Actual	$ 133,148
Difference	
Actuarial Value of Assets - State and Local	**$ (106)**
Actuarial Accrued Liability - State and Local	**$ (20,638)**

Discussion Points (Cont'd)

Question: **Please compare the current actuarial value of assets to the market value of assets for each system and in the aggregate and discuss the relevance of these two performance measures. What does it indicate when the market value of assets exceeds the actuarial value of assets and what does it indicate when the actuarial value of the assets exceeds the market value of assets.**

Answer: The actuarial value of assets compared to the market value of assets as of July 1, 2012 is as follows:

Table 2

Asset Values
Based on Actuarial Valuations as of July 1, 2012
(In Millions)

Pension Plan	Actuarial Value of Assets	Market Value of Assets	Difference
State			
PERS	$9,512.1	$8,390.0	($1,122.1)
TPAF	31,214.2	26,038.0	($5,176.2)
PFRS	2,074.1	1,829.4	($244.7)
CP&FPF	6.3	6.7	$0.4
SPRS	1,969.8	1,755.4	($214.4)
JRS	278.5	243.7	($34.8)
POPF	9.0	9.0	($0.0)
Subtotal	45,064.0	38,272.2	(6,791.8)
Local			
PERS	19,374.5	16,785.7	($2,588.8)
PFRS	21,500.5	19,296.2	($2,204.3)
Subtotal	40,875.0	36,081.9	(4,793.1)
Total	$85,939.0	$74,354.1	($11,584.9)

To avoid volatile fluctuations in annual employer pension contributions, State pension law allows for the assets of the pension plans to be valued using a five year smoothing technique, where 20 percent of the difference between the expected value and market value of assets is recognized to arrive at the actuarial value of assets, which is used for funding purposes.

Market values of assets exceeding the actuarial value of assets would have a mitigating impact on the growth of employer contributions to the plan since this scenario would result in a greater actuarial value of assets. Conversely, market value of assets less than the actuarial value of assets would require increased employer contributions, since lower plan assets results in greater unfunded pension liabilities.

Discussion Points (Cont'd)

Question: Please provide a table illustrating the results of the most recent valuations reports as of July 1, 2012 as compared to the July 1, 2011 valuation reports indicating the actuarial value of the assets, the actuarial accrued liability, the unfunded actuarial accrued liability, the funded ratio, and the market value of the assets for each State-administered retirement system.

Answer:
See Table 3 below.

Table 3

GASB Funded Status
Pension Fund Actuarial Liabilities and Assets
Based on Actuarial Valuations as of July 1, 2012
(In Millions)

Pension Plan	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Market Value of Assets
State					
PERS	$9,512.1	$19,383.6	$9,871.5	49.1%	$8,390.0
TPAF	31,214.2	52,637.3	21,423.1	59.3%	26,038.0
PFRS	2,074.1	4,027.0	1,952.9	51.5%	1,829.4
CP&FPF	6.3	8.0	1.7	78.8%	6.7
SPRS	1,969.8	2,767.8	798.0	71.2%	1,755.4
JRS	278.5	605.2	326.7	46.0%	243.7
POPF	9.0	5.4	(3.6)	167.6%	9.0
Subtotal	45,064.0	79,434.3	34,370.3	56.7%	38,272.2
Local					
PERS	19,374.5	26,009.0	6,634.5	74.5%	16,785.7
PFRS	21,500.5	27,705.2	6,204.7	77.6%	19,296.2
Subtotal	40,875.0	53,714.2	12,839.2	76.1%	36,081.9
Total	$85,939.0	$133,148.5	$47,209.5	64.5%	$74,354.1

GASB Funded Status
Pension Fund Actuarial Liabilities and Assets
Based on Actuarial Valuations as of July 1, 2011
(In Millions)

Pension Plan	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Market Value of Assets
State					
PERS	$9,938.1	$18,290.8	$8,352.7	54.3%	$9,089.8
TPAF	32,289.9	51,406.5	19,116.6	62.8%	27,654.0
PFRS	2,143.5	3,926.5	1,783.0	54.6%	1,944.2
CP&FPF	8.1	9.2	1.1	88.3%	6.7
SPRS	2,002.8	2,581.9	579.1	77.6%	1,820.4
JRS	305.2	585.7	280.5	52.1%	270.2
POPF	10.0	5.1	(4.9)	196.0%	10.0
Subtotal	46,697.6	76,805.7	30,108.1	60.8%	40,795.3
Local					
PERS	18,996.3	24,679.1	5,682.8	77.0%	16,636.4
PFRS	21,027.8	26,978.6	5,950.8	77.9%	19,405.8
Subtotal	40,024.1	51,657.7	11,633.6	77.5%	36,042.2
Total	$86,721.7	$128,463.4	$41,741.7	67.5%	$76,837.5

GASB Funded Status
Pension Fund Actuarial Liabilities and Assets
Comparison 2012 Valuations vs Revised 2011 Valuations
(In Millions)

Pension Plan	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Market Value of Assets
State					
PERS	($426.0)	$1,092.8	$1,518.8	-5.3%	($699.8)
TPAF	($1,075.7)	$1,230.8	2,306.5	-3.5%	($1,616.0)
PFRS	($69.4)	$100.5	169.9	-3.1%	($114.8)
CP&FPF	($1.8)	($1.2)	0.6	-9.6%	$0.0
SPRS	($33.0)	$185.9	218.9	-6.4%	($65.0)
JRS	($26.7)	$19.5	46.2	-6.1%	($26.5)
POPF	($1.0)	$0.3	1.2	-28.4%	($1.0)
Subtotal	(1,633.6)	2,628.6	4,262.2	-4.1%	($2,523.1)
Local					
PERS	$378.2	$1,329.9	951.7	-2.5%	$149.3
PFRS	$472.7	$726.6	253.9	-0.3%	($109.6)
Subtotal	850.9	2,056.5	1,205.6	-1.4%	$39.7
Total	($782.7)	$4,685.1	$5,467.8	-3.0%	($2,483.4)

Pension Fund Investment Return Assumptions

8. According to the National Association of Retirement Administrators (NASRA) in their Issue Brief, Public Pension Plan Investment Return Assumptions, the median annualized investment return for the 25-year period ended December 31, 2011 was 8.3 percent, while the mode was 8 percent. Upon recommendation from the Directors of the Division of Pensions and Benefits and the Division of Investment, a change in the economic assumptions used for the annual actuarial valuations was approved in the revised 2011 actuarial valuations. The rate of investment return was revised from 8.25 percent per annum to 7.95 percent per annum.

- ***Question:*** **Please provide a chart comparing the pension fund assumed rate of return with the actual rate of return for each year over the past 25 years. In addition, please provide the three-year, five-year, 10-year, 20-year, and 25-year annualized returns.**

Discussion Points (Cont'd)

Answer: Table 4 compares the pension fund assumed rate of return with the actual rate of return going back to Fiscal Year 1990. In addition, the chart includes the three-year, five-year, 10-year, and 20-year annualized returns.

Question: **What period of investment return was used to determine how much the assumed rate was revised?**

Answer: Economic actuarial assumptions should reflect the actual experience of the systems and expectations for future economic conditions over the long term. As such historical investment return data was used along with guidance from the systems' actuaries and the State's investment consultant regarding projected future growth rates resulting in a reduction in the assumed rate of return from 8.25 percent to 7.95 percent. This process occurred again during the development of the July 1, 2012 actuarial valuation process and the assumed rate of return was lowered to 7.9 percent.

Question: **Will a consistent methodology be used going forward?**

Answer: State statutes vests the authority in setting the assumed rate of return with the State Treasurer in consultation with the systems actuaries and per recommendations of the Directors of Pension and Benefits and Investment. This process is followed consistently.

- ***Question:*** **What percentage of the pension fund assets come from employee contributions, employer contributions, and investment returns?**

Answer: The allocation of current total assets is not tracked in these specific categories. Each year the actuary establishes employer contribution requirements and State statutes set member contributions requirements. Once those contributions are made the funds are invested and/or used to pay benefits costs. Active member contributions are accounted for separately in the Annuity Savings Fund and employer contributions are accounted for separately in the Contingent Reserve Fund. However, once assets are invested it is difficult to determine the current actual percentage of total system assets in the three categories requested.

Discussion Points (Cont'd)

Table 4

Pension Plan Assumed Rate of Return Compared to the Actual Rate of Return		
Fiscal Year	Assumed Rate	Actual Rate *
2013	7.90%	N/A
2012	7.95%	2.52%
2011	8.25%	18.03%
2010	8.25%	13.35%
2009	8.25%	-15.48%
2008	8.25%	-2.61%
2007	8.25%	17.15%
2006	8.25%	9.79%
2005	8.25%	8.77%
2004	8.75%	14.16%
2003	8.75%	3.31%
2002	8.75%	-8.61%
2001	8.75%	-9.80%
2000	8.75%	11.86%
1999	8.75%	16.27%
1998	8.75%	22.70%
1997	8.75%	22.09%
1996	8.75%	16.13%
1995	8.75%	19.69%
1994	8.75%	-0.74%
1993	8.75%	12.39%
1992	8.75%	13.88%
1991	8.75%	9.26%
1990	7.00%	13.08%
* Actual rates of return exclude PFRS mortgages.		
N/A: Not available		
Annualized Actual Investment Return:		
3 Years	11.11%	
5 Years	2.46%	
10 Years	6.42%	
20 Years	7.97%	

Discussion Points (Cont'd)

New GASB Rulings

9. On June 25, 2012 the General Accounting Standards Board (GASB) approved two new rules affecting the accounting and financial reporting of pensions by State and local governments. The new rulings change the way government entities measure and report pension liabilities, but they do not affect the way government entities choose to fund their pensions.

- ***Question:*** **What are the new key requirements under the new rules for pension accounting and financial reporting? What are the additional requirements affecting the development of the annual actuarial valuations and financial statements? Please describe and quantify the impact of the new rules on the contribution amounts and unfunded liabilities for disclosure purposes as compared to the statutorily developed amounts. Please explain and quantify the effect of the replacement of the net pension obligation with the net pension liability that is required to be included in the financial statements of the employer. Will the annual valuation reports include a reconciliation between the number required for disclosure purposes and the statutorily determined amounts? If so, how will the reconciliation be presented?**

Answer: On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved two new standards designed to improve the accounting and financial reporting of public employee pensions by state and local governments and to enhance the usefulness of pension information for making decisions and assessing accountability. New GASB Statement No. 67, *Financial Reporting for Pension Plans,* replaces GASB Statement No. 25, and revises existing guidance for the financial reports of public pension plans. New GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* replaces GASB Statements No. 27 and No. 50, and revises and establishes new financial reporting requirements for governmental employers that provide their employees with pension benefits. Although these new GASB Statements are intended to improve comparability between public pension plans by standardizing the way certain financial data relating to these plans are disclosed, they do not require Pension Plans to change their methods used to compute actual employer contributions to the plan. Employer contributions to the Pension Plans continue to be calculated per the requirements of the governing State statutes using generally accepted actuarial procedures and practices.

The new GASB Statements have been formally issued; however, their impact has not yet been identified. It is anticipated that the changes will have a material impact on the Pension Plans' liabilities and funded level as currently disclosed. The changes are expected to increase pension liabilities, and decrease funded levels for disclosure purposes. These changes include, but are not limited to: the requirement that pension liabilities and the annual actuarially required contribution be calculated using the entry-age normal actuarial cost method; and a change required to the Pension Plans discount rate.

New GASB Statements No. 67 and 68 will require governmental plans to utilize the

Discussion Points (Cont'd)

entry age normal actuarial cost method to compute pension liabilities and annual actuarially required contributions for disclosure purposes as opposed to the projected unit credit actuarial cost method, currently the statutorily required method used by the Pension Plans to calculate actual employer contributions. Under the entry-age normal actuarial cost method, pension liabilities are projected to the members' assumed retirement date and the annual normal cost of each member's pension is allocated as either a level amount or a level percent of payroll between the time employment starts (entry age) and the assumed retirement date. The goal is to spread the normal cost evenly over the career of the member. Under the projected unit credit actuarial cost method, pension liabilities are represented as the benefits that have accrued to members as of the valuation date and the normal cost represents the cost of benefits accrued to members during the plan year. By comparison, the entry-age normal actuarial cost method results in a more level contribution pattern. The projected unit credit generates costs which are directly attributable to the value of benefits being earned.

The new GASB Statements will require that the discount rate used to discount projected benefit payments to their present value be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA- or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. It is anticipated that this change may result in a discount rate which is lower than the 7.90% rate currently used to discount the projected benefits of the Pension Plans.

As with the former standards, new GASB Statements No. 67 and 68 relate only to accounting and financial reporting and do not address how governments are to approach Pension Plan funding (i.e. the computation of actual employer contributions). Actual employer contributions requirements will continue to be developed and calculated per the requirements of NJ State Statutes. The provisions in new GASB Statement No. 67 for Pension Plans are effective for financial statements for periods beginning after June 15, 2013 which will be with the issuance of the Fiscal Year 2014 financial statement for the State Pension Plans. The provisions in new GASB Statement No. 68 for employers are effective for fiscal years beginning after June 15, 2014 which for the State will be with the issuance of the Fiscal Year 2015 financial statement. As stated above, the impact of the new GASB statements has not been identified and as a result has yet to be quantified. However, consistent with the required implementation dates, the appropriate actuarial reports will include all the required new financial information and disclosures in compliance with the new statements. The inclusion of any additional information such as reconciliation has not been determined at this point.

Discussion Points (Cont'd)

Comptroller Report – Improper Participation by Professional Service Providers in the State Pension System

10. In July 2012, the Office of the State Comptroller (OSC) released a report of its investigation of participation by professional service providers in the State pension system. P.L.2007, c.92 (N.J.S.A. 43:15A-7.2) precluded professional service contractors who are not public employees from membership in the Public Employees' Retirement System (PERS). The objective of the OSC review was to determine if local government units in New Jersey complied with the mandates of P.L.2007, c.92. The OSC investigation found that a "majority of surveyed local government entities failed to comply with the statutory mandate to determine whether these professionals are independent contractors or employees" and "failed to remove ineligible contractors from PERS." The investigation also found that "many of the independent contractors aggregate their pension credits with multiple questionable PERS enrollments for services provided concurrently to multiple government entities, thereby boosting their pension payments." The OSC found 202 individuals in its sample who were enrolled in PERS inappropriately.

- ***Question:*** **Of the 202 cases of professional service providers that OSC sent to the Division of Pensions and Benefits for review and removal from the system, how many cases have been reviewed and removed?**

  Answer: The OSC shared its findings and supporting documentation with the Division. The Division is in the process of reviewing these materials, and is, where necessary, contacting the public employer to obtain additional documentation. This is a labor-intensive project and the review of many of these cases will take considerable time, particularly for those members with multiple employers. Further, individuals identified for removal from the retirement system will be provided with an opportunity to appeal to the Board of Trustees of the PERS. Those individuals found to be improperly enrolled in the retirement system will be removed from the system on a retroactive basis as appropriate.

  After the OSC report was released, a number of public employers not identified in the report came forward and identified their attorneys, engineers, doctors and other professionals whom they believed to be improperly enrolled in the retirement system. In total, 31 employers came forward and identified 30 additional members who should have been removed because of their non-employee status. In many instances the employers have suspended further remittance of the individual's quarterly pension contributions to the retirement system. The Division is in the process of reviewing these cases and will terminate PERS membership with a return of the individual's pension contributions as appropriate. Again, these individuals must be provided with an opportunity to appeal this action to the Board of Trustees of the PERS.

  Question: **Has the Division of Pensions and Benefits developed a comprehensive checklist to be used by local units to certify the PERS eligibility of professional service providers?**

Discussion Points (Cont'd)

Answer: Yes. On January 18, 2013 the Division issued a memorandum to Local Government and Local Education Certifying Officers entitled: Professional Services Contract and Review of PERS Enrollment. The memorandum included the newly developed Fact Sheet 84 – Professional Services Contracts, Independent Contractors, and Pension Enrollment. It also included an Employee/Independent Contractor Checklist, as recommended by the OSC, for the employer to complete and return to the Division. Employers have been instructed to complete the checklist for each individual who has provided professional services and was reported as a member of the PERS or DCRP since January 1, 2008. The document may be found on the Division's website at:

http://www.state.nj.us/treasury/pensions/coltr13.shtml#profserv

Question: **Has the division allocated any additional resources to address questionable PERS enrollments?**

Answer: Yes, the Division has reallocated existing resources within its External Audit Unit to address these cases. Staff is reviewing the supporting documentation collected by OCS as part of its review, and will review the checklists completed by employers that were submitted in response to the Division's Certifying Officer memo of January 18, 2013.

Question: **Have the rules been amended to require that municipalities obtain advice from the Division of Pensions and Benefits or an impartial attorney when seeking advice regarding the PERS eligibility of a professional service contractor?**

Answer: No additional regulation appears to be necessary at this time. The employer is required to complete the Checklist as referenced in the Certifying Officer memorandum found at:

http://www.state.nj.us/treasury/pensions/coltr13.shtml#profserv

The Division has established employer training as required by Chapter 52, P.L. 2011, for the enrollment and/or transfer of employees into the State-administered retirement systems. Both the Certifying Officer and the immediate Supervisor of the Certifying Officer must complete required online training and renew the training annually.

The law requires the Certifying Officer and the immediate Supervisor of the Certifying Officer to annually certify for each member of the retirement system, that the person enrolled is eligible for enrollment in the retirement system in accordance with the statutes and regulations of the retirement system.

The Division will review all submissions by the employer.

Discussion Points (Cont'd)

Question: **What is the fiscal impact of removing the ineligible individuals from the system?**

Answer: The removal of ineligible individuals will have virtually no impact on the unfunded liability and funded ratio because the number of individuals impacted are so few in comparison to the total number of PERS members.

Question: **Will the Division of Pensions and Benefits investigate the local governments that were not surveyed in the OSC review to determine if those local government units in New Jersey complied with the mandates of P.L.2007, c.92?**

Answer: Please refer to the Certifying Officer memorandum found at

http://www.state.nj.us/treasury/pensions/coltr13.shtml#profserv

Health Care Benefits

P.L.2011, c.78 Health Care Reform

11. P.L.2011, c.78 made various changes to public employee health benefits in New Jersey in terms of increased member contributions and plan design changes for the State Health Benefits Program (SHBP) and the School Employees Health Benefits Program (SEHBP).

- ***Question:*** **Please provide updated estimates of the total projected savings from P.L.2011, c.78 contributions for State, local education, and local governments to the SHBP and the SEHBP that were achieved in FY 2012 and are anticipated to be achieved in FY 2013, FY 2014, and FY 2015.**

Answer:

	State	Local Education	Local Govt	Total
FY2012	$400,000	$100,000	$400,000	$900,000
FY2013	$61,000,000	$18,300,000	$12,200,000	$91,500,000
FY2014	$160,100,000	$67,300,000	$43,500,000	$270,900,000
FY2015	$261,500,000	$147,900,000	$95,400,000	$504,800,000

These savings assume that Local Education and Local Government employees were paying 2% of premium costs prior to the change to the Chapter 78 contribution schedule and that their employers implemented Chapter 78 contributions as follows: 35% of employees began year one of the four year phase-in on 7/1/2011, 30% on 7/1/2012, 30% on 7/1/2013, and 5% on 7/1/2014.

These savings assume no contribution savings for retirees.

Discussion Points (Cont'd)

***Question*: Please provide updated estimates of the projected savings from migration to lower cost plans for the State, local education , and local governments for FY 2012, FY 2013, FY 2014, and FY 2015.**

Answer:

	State	Local Education	Local Govt	Total
FY2012	$400,000	$200,000	$500,000	$1,100,000
FY2013	$1,500,000	$900,000	$1,500,000	$3,900,000
FY2014	$3,100,000	$1,900,000	$2,900,000	$7,900,000
FY2015	$4,800,000	$2,900,000	$4,600,000	$12,300,000

***Question:* Please provide updated estimates of the projected enrollment for fiscal years FY 2012–2015 by benefit plan. Based on the Plan Year 2013 open enrollments results, how many new waivers were submitted for Plan Year 2013 and what are the projected savings attributable to the new waivers?**

***Answer* :**

	State	Local Education	Local Govt	Total
PY2013 New Waivers	265	355	155	775
PY2013 Waiver Savings	$2,100,000	$2,600,000	$1,300,000	$6,000,000

Note that these reflect the waivers reported in the Open Enrollment reports and may understate Local Education and Local Government waivers, since the State relies on Local employers for this information.

***Question:* Are the SHBP and the SEHBP meeting their migration projections? Please explain why or why not.**

Answer: Enrollment in the new lower-cost plans has been less than previously projected. The reason the migration is below projections may be related to the phased-in approach to cost sharing. As the employee contributions increase, it is expected that more employees will elect to consider the newer plan options and enrollments may get closer to projections

Rate Renewal Reports

12. The Plan Year 2013 Rate Renewal Reports prepared by Aon Hewitt dated September 2012, indicate that effective January 1, 2013, CIGNA HMO options will be discontinued, and Horizon will offer New Jersey-only HMO options. Also, beginning January 1, 2013, Aetna will continue to offer all HMO options on a national platform and will offer a PPO plan in addition to Horizon.

- ***Question:* Please explain the rationale for discontinuing the CIGNA HMO and creating Horizon HMO and an Aetna PPO.**

Discussion Points (Cont'd)

Answer: The goal of the medical vendor RFP was to select the highest-quality, lowest-cost vendors as required by the statutes that govern the Division of Purchase and Property. Aetna and Horizon scored better than CIGNA in both technical and financial measures. By having Aetna and Horizon offer HMO and PPO plans, the SHBP/SEHBP was able to provide members with choice of vendors for both PPO and HMO, while selecting the highest-rated vendors.

***Question*:** **What were the fiscal effects of these actions?**

Answer: As part of the vendor selection process, Aon Hewitt tested a number of scenarios. The selection of Aetna and Horizon as the vendors for all benefit options was projected to produce 4-year savings of $157 million. If the decision had been to continue with Horizon as the only PPO vendor and Aetna and CIGNA as the HMO vendors, the 4-year savings would have been $113 million.

Question: **What is the enrollment experience to date?**

Answer: The table below shows actual SHBP/SEHBP enrollment for Actives and Retirees, in aggregate, as of March 2013:

Horizon PPO	350,944
Horizon HMO	1,036
Horizon HD	121
Aetna PPO	5,334
Aetna HMO	52,397
Aetna HD	39
Total	409,871

***Question*:** **What is the projected enrollment for plan years 2014, 2015, and 2016?**

Answer: The table below shows Aon Hewitt's estimate of the projected SHBP/SEHBP enrollment for Actives and Retirees combined:

	PY2014	PY2015	PY2016
Horizon PPO	369,711	377,372	385,464
Horizon HMO	1,305	1,416	1,531
Horizon HD	128	174	221
Aetna PPO	4,351	5,407	6,516
Aetna HMO	54,983	56,039	57,153
Aetna HD	78	125	172
Total	430,556	440,533	451,057

Discussion Points (Cont'd)

The Effect of the Affordable Care Act on the SHBP/SEHBP

State Option to Extend CHIP eligibility to Children of State Employees

13. The Affordable Care Act (ACA) requires States to maintain current income eligibility levels for children in Medicaid and the Children's Health Insurance Program (CHIP) until 2019 and to extend funding for CHIP through 2015. Beginning in 2015, states will receive a 23 percentage point increase in the CHIP match rate up to a cap of 100 percent. Prior to the ACA, children who were eligible for health benefits coverage under a state health benefits program were not eligible to participate in the CHIP. Section 10203 (b)(2)(D) of the ACA amends the definition of a targeted low-income child by allowing States to extend CHIP eligibility to children of State employees who are otherwise eligible for benefits under state health benefit programs as long as one of two conditions is met: the state meets the maintenance of agency contribution condition or the state meets the hardship condition.

According to the Division of Pensions and Benefits, given the uncertain climate regarding the ultimate plan structure of State employee health benefit plans and potentially significant changes in employee cost-sharing requirements, a decision was made to postpone further evaluation of the feasibility of shifting eligible SHBP/SEHBP dependents to the CHIP program until after the enactment and implementation of public employee health benefits reform legislation in New Jersey. Following the enactment of P.L.2011, c.78, increase in State employee premium sharing requirements are being phased in over the next several years. These changes may make it more difficult to satisfy the maintenance of agency contribution requirement of the ACA. Evaluation of the feasibility of the program was delayed pending the outcome to the challenge to the ACA.

- ***Question:*** **With legal challenges to the ACA resolved, has the Administration restarted its consideration of whether eligible dependents under the SHBP/SEHBP can be shifted to CHIP? If so, what conclusions have been drawn? If not, is there a timetable for considering this option and coming to a conclusion? Please discuss the feasibility of extending CHIP eligibility to children of State employees in light of the June 28, 2012 Supreme Court ruling.**

  Answer: The Division of Pensions and Benefits and the Department of Human Services are reviewing the benefits of having SHBP participants enroll in CHIP. The review and analysis is ongoing. Both agencies have determined that further investigation is needed and that any changes would not occur until early calendar 2014.

Discussion Points (Cont'd)

HIPAA Opt Out Provisions Under the ACA

14. Federal laws impose various requirements for health care coverage on employer-sponsored health insurance plans, including the SHBP/SEHBP, and also allow plan administrators to obtain exemptions ("opt-outs") from some of these requirements. One significant opt-out the SHBP/SEHBP adopted was parity in the application of visit and dollar limits to mental health benefits.

However, under the ACA, self-funded nonfederal governmental group plans may no longer continue to opt out of mental health parity as it applies to dollar limits. As such, the SHBP/SEHBP now only applies for an exemption from the mental health coverage requirements for visit limits. The mental health parity provisions under HIPAA, as amended by the ACA, became effective as of the first contract entered into after September 23, 2010.

- ***Question:*** **What was the fiscal effect on the SHBP and the SEHBP of the loss of exemption from mental health parity annual and lifetime dollar limits? Please provide fiscal year data beginning July 1, 2011 and the cost to the State of not being able to impose dollar limits for each mental health category including, but not necessarily limited to, mental health, eating disorders, substance abuse, and post traumatic stress syndrome.**

  Answer: As noted above, the SHBP/SEHBP is not required to meet full mental health parity requirements. There are still day limits on certain mental health services:

	HMO	PPO	
Mental Health		In-Network	Out of Network
Inpatient Treatment	100% up to 35 days/year	100% up to 25 days/year	50% after deductible up to 50 days/year
Outpatient Treatment	100% after copay up to 30 visits/year	90%	Same as any other illness
Alcohol/Drug Abuse			
Inpatient Treatment	100% up to 28 days/occurrence	Same as any other illness	Same as any other illness
Outpatient Treatment	100% up to 60 days/year	Same as any other illness	Same as any other illness

The chart below reflects the impact of the removal of annual and lifetime dollar limits on mental health services.

	State	Local Education	Local Govt	Total
FY2012	$6,700,000	$8,000,000	$3,700,000	$18,400,000
FY2013	$7,300,000	$8,900,000	$4,300,000	$20,500,000
FY2014	$7,900,000	$9,900,000	$5,000,000	$22,800,000
FY2015	$8,500,000	$10,900,000	$5,600,000	$25,000,000

Discussion Points (Cont'd)

Fiscal Estimate of Selected Essential Health Benefits Under the ACA

15. Sections 2715, 2717, 2719, and 2719A of the ACA impose new requirements on the SHBP and the SEHBP regarding essential health benefits. The FY 2012 Aon Rate Renewal Reports did not include an estimate of the cost of these essential health benefit requirements on the FY 2014 SHBP/SEHBP budget. These requirements are detailed below.

Selected Essential Health Benefits	
Section	Description
§2715	Development and Utilization of Uniform Explanation of Coverage Documents and Standard Definitions: not later than 24 months after the date of enactment of the ACA, group health plans are required to provide a summary of benefits and coverage explanation to members and plan participants as prescribed by the Secretary of the U.S. Department of Health and Human Services.
§2717	Ensuring the Quality of Care: group health plans must report annually to the Secretary of the Department of Health and Human Services on compliance with the Quality of Care requirements under the ACA including: actions taken to improve health outcomes through activities such as quality reporting, effective case management, care coordination, chronic disease management, and medication and care compliance initiatives through the use of the medical homes model, as defined; actions taken to implement activities to prevent hospital readmissions; actions taken to implement activities to improve patient safety and reduce medical errors, as defined; and actions taken to implement wellness and health promotion activities.
§2719	Appeals Process: Effective January 1, 2012 insurers must implement a new, independent appeals process for coverage determination and claims. After the internal appeal process with the medical or prescription drug carrier, members are eligible to have their appeals heard by an independent review organization (IRO). The types of claims that can be appealed generally include: denials, reductions in benefits, or termination of coverage.
§2719A	Patient Protection Provisions: group health plans must allow enrollees to choose a primary care provider or pediatrician when designation of a primary care provider is required and must allow enrollees to obtain obstetrical or gynecologic care without prior authorization. Group health plans must provide coverage of emergency services without having to obtain prior authorization (even if the emergency services are out-of-network). Cost-sharing requirements expressed as copayment amount or coinsurance rate for out-of-network emergency services cannot exceed the in-network cost sharing requirements.

- ***Question:*** **Please provide an estimate of the cost to the SHBP and the SEHBP of complying with each of the essential health benefits requirements listed above for plan years 2014, 2015, and 2016.**

  Answer: The above requirements of ACA resulted in negligible or no increase in costs to the SHBP/SEHBP.

Discussion Points (Cont'd)

Employer Requirements and Premium and Cost Sharing Subsidies to Individuals Under the ACA as they Relate to the SHBP/SEHBP.

16. The Affordable Care Act does not require employers to offer health care coverage to their employees. However, for employers, with 50 or more employees, who do not offer health care coverage, the ACA imposes a fee totaling $2,000 per full-time employee on any employer with at least one full-time employee who receives a premium tax credit or cost sharing subsidy. The employer is exempted from paying the fee on the first thirty employees, but pays the $2,000 fee for each remaining full-time employee. For employers with 50 or more employees, who do offer health care coverage for their employees, the ACA imposes a fee totaling $3,000 per full-time employee on any employer with at least one full-time employee who receives a premium tax credit or cost sharing subsidy. The employer is exempted from paying the fee on the first 30 employees. Employers with less than 50 employees are exempt. Employers with more than 200 employees are required to enroll employees automatically into health insurance plans offered by the employer, however, employees may opt out of coverage.

- ***Question:*** **How will this affect the SHBP/SEHBP? Is it possible that State employees will choose to opt out of SHBP/SEHBP coverage and would qualify for premium tax credits or cost sharing subsidies such that the State will be assessed penalties?**

Answer: Aon Hewitt conducted a detailed modeling process to determine if the Exchanges would be an attractive and viable option for SHBP/SEHBP enrollees. The model used the January 2013 census, and includes income, household size, demographics, and current plan options to project the probability that an SHBP/SEHBP member would enroll in an Exchange plan. Based on the rich plan designs currently offered under the SHBP/SEHBP and the relatively-low employee contribution rates, we project that there will be very few, if any, employees (either State or Local) who will opt out of the SHBP/SEHBP in favor of plans on the Health Care Exchanges. For this reason, we do not anticipate that the State, Local Education, or Local Government will be assessed any measurable amount of penalties for employees who enroll in the Health Care Exchanges.

Aon Hewitt tested all the plan options offered by the SHBP/SEHBP and all meet the "credible coverage" test by providing over a 60 percent value.

Question: **Please explain and quantify. How many local governments in the SHBP could have employees who opt out of SHBP/SEHBP coverage and would qualify for premium tax credits or cost sharing subsidies such that the local governments will be assessed penalties? How many State and local government part-time employees' hours have been reduced in order to avoid potential penalties? How many State and local government part-time employees have retired as a result. How has that affected post retirement medical accounts in the proposed FY 2014 Governor's Budget?**

Answer: Aon Hewitt tested all the plan options offered by the SHBP/SEHBP and all meet the "credible coverage" test by providing over a 60 percent value. We are not aware of any State or Local Government part-time employees reducing their hours and we do not have data on changes to employee hours or employment status as a result of Health Care Reform.

Discussion Points (Cont'd)

OTHER INTERDEPARTMENTAL ACCOUNTS

Tax Revenue and Anticipation Notes

17. The State uses cash flow borrowing, in the form of lines of credit and tax and revenue anticipation notes (TRANS), to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters of the year, before major tax collections are received in the last two quarters of the year. The FY 2014 Governor's Budget proposes an appropriation of $6 million for Interest on Short Term Notes (page D-440). Thus far in FY 2013, the State has issued about $2.6 billion in TRANS to meet cash flow needs (Series C, November 2012), after twice drawing upon a line of credit for temporary cash flow financing---$1.2 billion in July 2012 (Series A) and $900 million in August 2012 (Series B). The OLS estimates that interest costs on these borrowings will total about $42.7 million which will be offset by original issue premiums of $33.6 million. Thus, net interest borrowing cost could be approximately $9.1 million.

- ***Question:*** **Please report the estimated FY 2013 costs of cash flow borrowing, distinguishing between interest and fees, itemizing these costs by each series of borrowing. What projections of FY 2014 line of credit use and tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining to recommend an appropriation of $6 million in FY 2014? What impact on the amount, timing, and cost of cash flow borrowing results from postponing Homestead Benefit Program payments from FY 2013 to FY 2014?**

  Answer: Interest expense and fees for FY2013 by series are as follows:
  - Series A-interest=$2,106,242.62, fees=$130,427.00 for a total of $2,236,669.62. The interest rate is variable by month and ranged from 0.46% to 0.495%.
  - Series B-interest=$934,672.13, fees=$3,927.00 for a total of $938,599.13. The interest rate is variable by month and ranged from 0.46% to 0.495%.
  - Series C-interest: Gross=$39,180,556.00, less premium=$33,618,000.00, net interest=$5,562,556.00, fees=$90,838.18, for a net total of $5,653,394.18. Coupon rate=2.5%, Yield=0.35%.
    Interfund borrowing will add approximately $100,000.

  Total net interest all series=$8,703,470.75, fees=$225,192.18, net total=$8,928,662.93.

  While this more recent estimate is less than the projection for Fiscal Year 2013 in the Budget Message ($12.6m), we are projecting banking services costs and believe they will exceed the $4 million appropriation.

  Moving the calendar 2013 Homestead Benefit to Fiscal Year 2014 did not change borrowing needs for Fiscal Year 2013 .

  Fiscal Year 2014 working capital needs will be refined as the Appropriations Act reaches conclusion.

Discussion Points (Cont'd)

Unused Accumulated Sick Leave Benefits

18. The FY 2013 Governor's budget recommends a FY 2013 adjusted appropriation and proposed FY 2014 appropriation of $12.5 million to pay for unused accumulated sick leave payments.

- ***Question:*** **What number of retirees and what average payment per retiree is projected in determining the amount recommended for unused sick leave payments for FY 2013 and FY 2014 respectively? Thus far, in FY 2013, how many retirees have been paid accumulated sick leave and at what average amount per retiree?**

  Answer: The number of retirements and payments to date for unused accumulated sick leave is consistent with trends from prior years. The Fiscal Year 2013 adjusted appropriation of $12.5 million will be sufficient to pay for unused accumulated sick leave payments.

STATE OF NJ
RISK MANAGEMENT INFORMATION SYSTEM
COMPENSATION CLAIMS REPORTED BY DEPT FOR FY 08

DEPARTMENT	Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	15	33,257	10,287		61,972	105,516
AUTHORITIES	30	104,624	31,205	13,136	111,017	259,982
BANKING	11	46,280	3,140	16,878	23,419	89,716
COMMERCE	-	-	-	-	2,599	2,599
CORRECTIONS	1,179	7,587,775	1,147,202	2,790,799	4,358,274	15,884,049
COMMUNITY AFFAIRS	43	159,116	40,377	38,715	160,645	398,853
ENVIRONMENTAL PROTECTION	157	1,179,929	94,216	86,541	471,196	1,831,882
HUMAN SERVICES	3,763	13,253,554	2,395,149	2,123,701	8,992,699	26,765,103
HEALTH	62	194,516	41,166	1,283	111,514	348,479
PERSONNEL	3	38,621	385	1,689	1,200	41,895
TRANSPORTATION	402	2,211,123	355,390	293,333	1,477,851	4,337,697
EDUCATION	26	202,181	15,250	9,551	122,392	349,373
CHIEF EXECUTIVE	1	103,894	-	-	-	103,894
HIGHER EDUCATION	418	1,781,404	366,869	176,595	1,377,043	3,701,911
INSURANCE	3	9,370	-	-	-	9,370
JUDICIARY	329	1,528,598	333,152	251,679	1,315,531	3,428,960
LABOR	70	453,722	107,556	75,814	482,801	1,119,893
LEGISLATURE	8	30,616	6,287	-	53,936	90,839
LAW AND PUBLIC SAFETY	704	4,994,148	678,324	536,230	2,788,563	8,997,265
MOTOR VEHICLE COMMISSION	74	393,728	46,254	34,703	233,968	708,652
PUBLIC ADVOCATE	26	78,004	47,650	2,093	149,735	277,482
STATE	14	59,058	2,315	3,470	7,619	72,461
TREASURY	123	763,264	153,296	75,386	553,330	1,545,276
MILITARY AND VETERANS AFFAIRS	272	717,617	182,818	160,744	680,912	1,742,091
GRAND TOTALS	7,461	35,924,399	6,058,288	6,692,340	23,538,215	72,213,242

STATE OF NJ
RISK MANAGEMENT INFORMATION SYSTEM
COMPENSATION CLAIMS REPORTED BY DEPT FOR FY 09

DEPARTMENT	Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	15	11,975	4,488	-	42,964	59,442
AUTHORITIES	41	91,457	1,585	-	9,384	102,467
BANKING	4	15,763	-	-	9,662	25,429
CHILDERN AND FAMILIES	153	1,389,002	107,991	283,668	336,740	2,117,554
COMMERCE		565	1,870	-	7,149	9,584
CORRECTIONS	1,110	7,391,387	1,770,303	2,629,553	5,907,153	17,699,506
COMMUNITY AFFAIRS	32	284,322	48,849	37,903	247,748	618,854
ENVIRONMENTAL PROTECTION	162	800,864	213,726	24,974	616,258	1,655,984
HUMAN SERVICES	3,324	12,188,878	2,506,472	2,158,889	9,291,241	26,148,804
HEALTH	57	135,491	95,839	-	241,331	472,718
PERSONNEL	4	12,581	1,875	-	6,944	21,404
TRANSPORTATION	356	2,249,874	433,205	376,826	1,709,601	4,769,862
EDUCATION	38	89,782	21,912	-	95,685	207,417
CHIEF EXECUTIVE	1	854	-	-	-	855
HIGHER EDUCATION	426	2,212,976	263,828	237,506	1,106,419	3,821,155
INSURANCE		14,276	-		-	14,276
JUDICIARY	294	1,338,568	301,743	205,436	1,069,553	2,915,594
LABOR	81	600,153	144,634	77,684	578,892	1,401,443
LEGISLATURE	5	10,397	-	-	21,944	32,346
LAW AND PUBLIC SAFETY	597	4,165,950	769,352	520,625	3,226,234	8,682,758
MOTOR VEHICLE COMMISSION	61	469,845	137,340	61,004	517,977	1,186,227
PUBLIC ADVOCATE	19	150,598	10,635	22,500	69,802	253,554
STATE	10	13,245	20,521	1,799	77,101	112,676
TREASURY	105	714,381	132,799	70,175	565,759	1,483,218
MILITARY AND VETERANS AFFAIRS	274	995,004	305,534	220,240	862,200	2,383,253
GRAND TOTALS	7,169	35,348,189	7,294,502	6,928,780	26,617,739	76,196,379

STATE OF NJ
RISK MANAGEMENT INFORMATION SYSTEM
COMPENSATION CLAIMS REPORTED BY DEPT FOR FY 10

DEPARTMENT	Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	13	13,876	4,240	-	28,339	46,468
AUTHORITIES	12	184,546	3,650	14,068	15,943	218,219
BANKING	6	22,842	11,170	-	60,852	94,870
COMMERCE	1	19,833	-	-	-	19,834
CORRECTIONS	936	10,927,318	1,373,088	3,647,298	4,900,013	20,847,717
COMMUNITY AFFAIRS	33	254,489	66,398	26,737	254,134	601,791
CHILDERN AND FAMILIES	379	2,915,905	180,923	613,461	565,494	4,276,161
ENVIRONMENTAL PROTECTION	121	1,096,826	47,546	63,262	362,298	1,570,052
HUMAN SERVICES	2,925	14,326,645	2,305,990	2,552,896	8,083,427	27,271,882
HEALTH	25	161,610	22,067	4,417	120,396	308,515
PERSONNEL	2	8,588	3,695		10,760	23,045
TRANSPORTATION	254	2,366,544	303,008	448,352	1,233,040	4,351,198
EDUCATION	45	205,990	41,256	1,494	119,564	368,349
CHIEF EXECUTIVE	1	14,188	-	-	-	14,189
HIGHER EDUCATION	388	2,911,941	253,514	322,903	985,311	4,474,057
INSURANCE	-	-	-	-	-	-
JUDICIARY	224	1,603,827	250,981	156,954	932,987	2,944,973
LABOR	53	526,035	85,533	88,918	389,043	1,089,582
LEGISLATURE	3	17,605	2,014		23,871	43,494
LAW AND PUBLIC SAFETY	456	4,854,549	534,729	637,686	2,185,564	8,212,984
MOTOR VEHICLE COMMISSION	70	836,265	37,656	103,685	208,040	1,185,715
PUBLIC ADVOCATE	15	119,284	18,383	12,868	96,518	247,068
STATE	6	17,736	13,188	10,095	52,933	93,959
TREASURY	83	744,476	68,985	53,152	284,061	1,150,758
MILITARY AND VETERANS AFFAIRS	205	1,417,244	128,130	227,472	611,328	2,384,379
GRAND TOTALS	6,256	45,568,163	5,756,144	8,985,716	21,523,915	81,839,259

STATE OF NJ
RISK MANAGEMENT INFORMATION SYSTEM
COMPENSATION CLAIMS REPORTED BY DEPT FY 11

DEPARTMENT	Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	9	40,395	6,270		38,185	84,858
AUTHORITIES	37	126,180	23,889	42,446	105,171	297,723
BANKING	8	32,748	6,965	5,482	39,270	84,474
COMMERCE		1,029	3,798		17,057	21,884
CORRECTIONS	911	10,271,296	2,384,754	2,986,919	8,448,827	24,092,708
COMMUNITY AFFAIRS	41	330,470	40,373	42,504	162,288	575,677
CHILDERN AND FAMILIES	380	2,190,817	472,665	433,846	1,452,174	4,549,882
ENVIRONMENTAL PROTECTION	132	1,163,188	194,960	107,359	807,159	2,272,798
HUMAN SERVICES	2,934	15,259,817	2,948,953	2,630,781	10,416,611	31,259,096
HEALTH	57	131,754	44,005	4,086	189,341	369,244
PERSONNEL	5	7,246	9,655		35,563	52,469
TRANSPORTATION	258	2,470,545	668,330	329,861	2,053,427	5,522,421
EDUCATION	42	223,378	52,607	2,808	247,461	526,296
CHIEF EXECUTIVE						
HIGHER EDUCATION	448	2,282,194	360,370	316,601	1,500,063	4,459,675
INSURANCE	1					1
JUDICIARY	280	2,532,404	501,472	320,630	1,631,315	4,986,101
LABOR	77	780,585	156,087	47,582	630,373	1,614,703
LEGISLATURE	6	37,368	6,021		41,255	84,649
LAW AND PUBLIC SAFETY	528	5,528,993	1,001,713	586,366	3,467,119	10,584,719
MOTOR VEHICLE COMMISSION	100	799,815	176,966	140,384	591,561	1,708,826
PUBLIC ADVOCATE	29	149,363	47,271	9,679	182,386	388,727
STATE	11	164,279	12,687	1,928	51,161	230,066
TREASURY	127	910,851	195,312	130,777	664,625	1,901,691
MILITARY AND VETERANS AFFAIRS	227	1,090,174	283,011	205,203	994,377	2,572,992
GRAND TOTALS	6,648	46,524,888	9,598,134	8,345,243	33,766,768	98,241,681

STATE OF NJ
RISK MANAGEMENT INFORMATION SYSTEM
COMPENSATION CLAIMS REPORTED BY DEPT FY 12

DEPARTMENT	Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	9	38,151		6,460	-	44,611
AUTHORITIES	27	102,080	19,031	34,535	77,372	233,018
BANKING	3	2,778	6,578	-	29,961	39,316
COMMERCE	1	723	6,461	-	27,206	34,390
CORRECTIONS	634	8,932,200	1,987,978	3,934,323	7,573,682	22,428,183
COMMUNITY AFFAIRS	24	207,694	43,111	44,387	111,917	407,109
CHILDERN AND FAMILIES	302	2,139,487	395,144	969,968	1,585,582	5,090,181
ENVIRONMENTAL PROTECTION	120	976,880	156,519	112,868	776,178	2,022,444
HUMAN SERVICES	2,333	15,423,231	2,976,945	4,308,734	10,118,265	32,827,175
HEALTH	37	177,307	43,677	17,810	208,912	447,705
PERSONNEL	2	8,895	-	-	-	8,895
TRANSPORTATION	263	2,364,738	526,014	484,195	2,158,094	5,533,041
EDUCATION	34	169,905	17,244	25,706	57,249	270,104
CHIEF EXECUTIVE	1	-	-	-	-	-
HIGHER EDUCATION	321	2,032,096	336,063	428,539	1,234,533	4,031,231
INSURANCE		-	-	-	-	-
JUDICIARY	283	2,068,086	334,581	223,642	1,325,234	3,951,543
LABOR	68	525,408	176,306	89,186	644,167	1,435,068
LEGISLATURE	6	79,538			15,336	94,874
LAW AND PUBLIC SAFETY	497	5,686,321	713,030	777,317	2,919,919	10,096,586
MOTOR VEHICLE COMMISSION	73	963,725	130,374	179,304	596,463	1,869,866
PUBLIC ADVOCATE	21	151,352	43,900	23,457	133,113	351,822
STATE	5	32,361	115	2,830	-	35,306
TREASURY	145	686,435	214,412	125,224	685,578	1,711,649
MILITARY AND VETERANS AFFAIRS	185	1,008,384	291,547	307,849	1,092,189	2,699,969
GRAND TOTALS	5,394	43,777,774	8,419,030	12,096,334	31,370,949	95,664,087

Department of the Treasury Performance Indicators - March RISK MANAGEMENT	Freq	Desired Trend	Prior Month	Current Month	% Change	Last 12 Month	Target
Revenue Generation (including Cost Management)							
Total Workers Compensation Cost, including medical expenses and wage replacement, per 1000, across State Government (FTE=76,435)							
Medical	m	decrease	$ 20,903	$ 22,233	6.36%	$ 426,330	$ 606,000
Expense	m	decrease	$ 10,658	$ 9,571	-10.20%	$ 110,392	$ 100,000
Indemnity	m	decrease	$ 51,756	$ 49,324	-4.70%	$ 602,844	$ 496,000
SLI	m	decrease	$ 42	$ -	-100.00%	$ 2,314	$ -
Total	m	decrease	$ 83,359	$ 81,128	-2.68%	$ 1,141,880	$ 1,202,000
Cost Recovery:							
Subrogation	m	increase	$ 128,558	$ 234,376	45.15%	$ 2,422,993	$ 2,000,000
Third Party Recovery	m	increase	$ 49,604	$ 244,065	79.68%	$ 2,310,048	$ 3,000,000
Statewide Support Service							
Number of outstanding Workers Compensation claims:							
Frequency:							
New Claims Reported	m	reduce	382	345	-9.69%	431	478
Injury Rate/Employee	m	reduce	6.00%	5.42%	-9.69%	6.77%	7.50%
Total Open	m	reduce	10,481	10,674	1.84%	11,089	10,000

FIRST AMENDMENT TO THE AGREEMENT BETWEEN THE DEPARTMENT OF THE TREASURY AND LIBERTY SCIENCE CENTER, INC.

This First Amendment ("First Amendment") to the Agreement ("Agreement") made as of the 1st day of July 2011, by and between the Treasurer of the State of New Jersey (the "Treasurer") and Liberty Science Center, Inc. ("LSC") will confirm the mutual understanding and intention of the parties hereto as to the following:

WHEREAS, pursuant to Section 24 of the Sublease Agreement by and between Liberty State Park Development Corporation (the "Corporation") and Liberty Science Center and Hall of Technology, Inc. (now known as Liberty Science Center, Inc.) dated November 6, 1989, as amended, and as assigned by the Corporation to the New Jersey Department of Environmental Protection ("DEP") by an Assignment and Assumption Agreement dated as of May 15, 2003 (collectively, the "LSC Lease"), LSC is responsible for all development, construction, maintenance and operational costs including utility service, ground maintenance and security with respect to its use and occupancy of the Premises (as such term is defined in the LSC Lease); and

WHEREAS, LSC requested the Treasurer's assistance in paying certain costs of LSC with respect to utilities, maintenance of the Liberty Science Center (the "Center") facility and security for the Center as described on Exhibit "A" attached hereto (collectively, the "LSC Costs") to enable LSC to become financially self-sustaining in the future; and

WHEREAS, the Treasurer pursuant to the Agreement agreed to provide, from time to time, in his sole discretion and subject to the limitations set forth below, financial assistance to LSC for such purposes for the period commencing July 1, 2011 and ending June 30, 2012 ("Fiscal Year 2012"), subject to the terms and conditions of the Agreement; and

WHEREAS, LSC agreed to apply the amounts received from the Treasurer under the Agreement to the prompt payment of the LSC Costs as they become due in accordance with LSC's obligations under the LSC Lease; and

WHEREAS, paragraph 8 of the Agreement provides that it will expire on June 30, 2012, provided that the Treasurer may, in his sole discretion, agree to extend the Agreement for such period as he may determine, such extension to be memorialized by an amendment pursuant to the provisions of paragraph 14 of the Agreement; and

WHEREAS, LSC has requested and the Treasurer agrees to have the funding arrangement provided for in the Agreement apply to the period from July 1, 2012 through June 30, 2012 ("Fiscal Year 2013");

NOW, THEREFORE, the Treasurer and LSC do hereby agree as follows:

1. The term of the Agreement is extended until June 30, 2013, unless terminated earlier as provided for in the Agreement. Any references in the Agreement to Fiscal Year 2012 shall refer to Fiscal Year 2013 for this First Amendment.

2. Except as otherwise provided for in paragraph 1 of this First Amendment, all other terms and conditions as provided for in the Agreement shall remain in full force and effect.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Treasurer and LSC have executed this First Amendment to the Agreement as of the date and year first written above:

TREASURER OF STATE OF NEW JERSEY

Andrew P. Sidamon-Eristoff
State Treasurer

LIBERTY SCIENCE CENTER, INC.

By: Constance C. Claman
[NAME] Constance Claman
[TITLE] Vice President, Resource Administration

AGREEMENT BETWEEN THE DEPARTMENT OF THE TREASURY AND LIBERTY SCIENCE CENTER, INC.

This Agreement ("Agreement") made as of the 1st day of July 2011, by and between the Treasurer of the State of New Jersey (the "Treasurer") and Liberty Science Center, Inc. ("LSC") will confirm the mutual understanding and intention of the parties hereto as to the following:

WHEREAS, pursuant to Section 24 of the Sublease Agreement by and between Liberty State Park Development Corporation (the "Corporation") and Liberty Science Center and Hall of Technology, Inc. (now known as Liberty Science Center, Inc.) dated November 6, 1989, as amended, and as assigned by the Corporation to the New Jersey Department of Environmental Protection ("DEP") by an Assignment and Assumption Agreement dated as of May 15, 2003 (collectively, the "LSC Lease"), LSC is responsible for all development, construction, maintenance and operational costs including utility service, ground maintenance and security with respect to its use and occupancy of the Premises (as such term is defined in the LSC Lease); and

WHEREAS, LSC has requested the Treasurer's assistance in paying certain costs of LSC with respect to utilities, maintenance of the Liberty Science Center (the "Center") facility and security for the Center as described on Exhibit "A" attached hereto (collectively, the "LSC Costs") to enable LSC to become financially self-sustaining in the future; and

WHEREAS, the Treasurer has agreed to provide, from time to time, in his sole discretion and subject to the limitations set forth below, financial assistance to LSC for such purposes for the period commencing July 1, 2011 and ending June 30, 2012 ("Fiscal Year 2012"), subject to the terms and conditions of this Agreement; and

WHEREAS, LSC has agreed to apply the amounts received from the Treasurer under this Agreement to the prompt payment of the LSC Costs as they become due in accordance with LSC's obligations under the LSC Lease.

NOW, THEREFORE, the Treasurer and LSC do hereby agree as follows:

1. For Fiscal Year 2012 LSC agrees to submit to the Treasurer for review and approval an annual financial plan projecting its cash flow and all of its costs including, without limitation, wages, salaries, benefits or other expenses of the employees, officers or representatives of LSC and the LSC Costs for Fiscal Year 2012 ("LSC Budget") by no later than August 1, 2011. For the avoidance of doubt, the term "LSC Costs" shall not include wages, salaries, benefits or other expenses of the employees, officers or representatives of LSC. Furthermore, payment of the wages, salaries, benefits or other expenses of the employees, officers or representatives of LSC shall not be the responsibility of the Treasurer.

   a. The Treasurer has the right to request additional information and/or documentation for any expenses included in the proposed LSC Budget.

b. The Treasurer will review such proposed LSC Budget and, in his sole discretion, determine the amount, if any, of the projected LSC Costs in such LSC Budget that will be paid to LSC for Fiscal Year 2012.

c. LSC agrees to adjust the LSC Budget at such times as reasonably requested by the Treasurer and at least quarterly before the next payment of LSC Costs to reflect changes in its revenues and expenses. In evaluating the projected LSC Costs for a fiscal quarter to determine the amount of the payment to be made to LSC, the Treasurer may take into account any increases or decreases in such revenues and/or expenses for such fiscal quarter.

d. The Treasurer will be under no obligation to pay any portion of the projected LSC Costs for Fiscal Year 2012. LSC hereby acknowledges that such payments for LSC Costs are fully discretionary on the Treasurer's part, and subject to the limitations set forth in Paragraph 5 of this Agreement.

e. LSC's failure to submit its proposed LSC Budget for Fiscal Year 2012 by the date set forth in the introductory paragraph of this Paragraph 1 will be deemed to be a waiver of LSC's ability to request payment of the LSC Costs for the Fiscal Year. However, the Treasurer, in his sole discretion, may permit LSC to submit proposed LSC Costs for Fiscal Year 2012 after such date.

2. For Fiscal Year 2012 LSC agrees to submit to the Treasurer for review and approval an annual plan for the staffing of LSC and the operation of the Center. The Treasurer has the right to request additional information and/or documentation with respect to the staffing plan and operational plan, and in his discretion, the Treasurer or his designee may meet with LSC to discuss such plans. LSC agrees to adjust such staffing plan and operational plan as may be reasonably requested by the Treasurer.

3. Subject to the limitations stated in Paragraph 5 below, and to the extent that the Treasurer has approved the projected LSC Costs for Fiscal Year 2012, the Treasurer will pay to LSC, on a quarterly basis, on or about the first (1^{st}) day of each fiscal quarter, an amount equal to the amount specified for projected LSC Costs for such fiscal quarter in the approved LSC Budget for Fiscal Year 2012. At the end of each fiscal quarter, the Treasurer will determine whether the actual LSC Costs for such fiscal quarter, equal, exceed or are less than the amount paid pursuant to this Paragraph 3. To the extent such amount paid exceeds the amount of the actual LSC Costs for such fiscal quarter, such excess amount may be applied to the payment, if any, for the next fiscal quarter or repaid by LSC to the Treasurer, as the Treasurer determines, in his sole discretion. Furthermore, to the extent such amount is less than the amount of the actual LSC Costs for such fiscal quarter, such deficit amount may be added to the payment, if any, for the next fiscal quarter, as the Treasurer determines, in his sole discretion.

4. LSC agrees to apply such amounts received under Paragraph 3 of this Agreement to the prompt payment of the LSC Costs as they become due and shall furnish the Treasurer with

written evidence of such payment, which shall include copies of all invoices paid during the last ended fiscal month to be furnished by the fifteenth (15^{th}) day of the next fiscal month. The Treasurer will have the right to reject or adjust the amount of any such expenses.

5. Any and all payments of LSC Costs to be made by the Treasurer shall be subject to and dependent upon appropriations being made from time to time by the New Jersey Legislature (the "State Legislature") for such purposes. The State Legislature has no obligation to make appropriations for such purposes. Furthermore, any and all payments of LSC Costs to be made by the Treasurer are also subject to the availability of such funds. The Treasurer shall have no obligation to make any payment of LSC Costs due to the failure of the State Legislature to make such appropriations or due to the unavailability of such funds during Fiscal Year 2012.

6. A failure of the State Legislature to appropriate such funds to pay LSC Costs (an "Event of Non-Appropriation") will not constitute a default under this Agreement. The unavailability of such funds for the Treasurer to make a payment of LSC Costs during Fiscal Year 2012 (an "Event of Unavailability of Funds") will not constitute a default under this Agreement. The Treasurer will not be liable in any manner upon an Event of Non-Appropriation or upon an Event of Unavailability of Funds.

7. This Agreement shall not be construed, in any manner, to relieve LSC of its responsibilities under Section 24 of the LSC Lease. LSC agrees that it is responsible for complying with Section 24 of the LSC Lease, irrespective of its entry into this Agreement.

8. This Agreement shall commence on July 1, 2011, and expire on June 30, 2012, unless terminated earlier. Notwithstanding anything to the contrary contained in this Agreement, the Treasurer may determine, in his sole discretion, to extend this Agreement for such period as he shall determine. Such extension will memorialized by an amendment in accordance with Paragraph 14 of this Agreement
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9. The Treasurer may terminate this Agreement at any time upon sixty (60) days notice to LSC. Notice of termination of the Agreement may be provided by electronic mail, facsimile, telecopy or by written means and will be effective as of the day of the delivery of such notice of termination.

10. LSC shall have no recourse against the Treasurer if the Treasurer terminates this Agreement. Upon termination, the Treasurer will have no liability whatsoever under this Agreement.

11. All notices and other communications hereunder shall be in writing and shall be deemed given when hand delivered with receipt acknowledged, sent by telecopy, telegraph, telex, facsimile transmission or any other similar means of electronic communication, mailed by first class mail, registered or certified, return receipt requested, or sent by recognized overnight carrier, postage prepaid and with acknowledgment of delivery, to the parties at the addresses or numbers set forth below or as to each party at such other or additional address or numbers as shall be designated by such party in a written notice to the other party hereto.

If to the Treasurer:	State Treasurer c/o New Jersey Department of the Treasury Division of Administration P.O. Box 211 Trenton, New Jersey 08625 Facsimile No.: (609) 292-6160
If to LSC:	Liberty Science Center Liberty State Park 222 Jersey City Boulevard Jersey City, New Jersey 07305 Attn: Connie Claman CFO & Vice-President Facsimile No.: (201) 451-6383

12. LSC will permit the Treasurer and his employees, agents and representatives to visit LSC's offices, upon prior notice and during reasonable business hours, to examine LSC's books and financial records, including minutes of meetings, and make copies thereof or extracts there from (at the Treasurer's expense), and to discuss LSC's affairs, finances and accounts with its principal officers, all at such reasonable times and as often as the Treasurer may reasonably request, and in such manner as not to disrupt the normal business operations of LSC; provided, however, upon termination of this Agreement, such copies of any requested books and records shall be delivered to the Treasurer at LSC's expense; provided that LSC shall only be required to pay reasonable expenses.

13. Upon the Treasurer's request, LSC agrees to provide performance metrics to measure the effectiveness of LSC's fundraising and other operational areas.

14. This Agreement may be amended from time to time provided such amendment is in writing and signed by all parties.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey.

16. This Agreement may be executed in any number of counterparts, all of which counterparts, taken together, shall constitute but one and the same Agreement.

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[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Treasurer and LSC have executed this Agreement as of the date and year first written above:

TREASURER OF STATE OF NEW JERSEY

Andrew P. Sidamon-Eristoff
State Treasurer

LIBERTY SCIENCE CENTER, INC.

By: Connie Claman

Connie Claman
Acting Executive Director and CFO

EXHIBIT "A"

LSC COSTS

<u>Utilities</u>
Gas and Electric
Water
Water Disposal
Water Treatment

<u>Maintenance of Facility & Systems</u>
Engineering
Housekeeping
Landscaping / Snow Removal/ Other Ground Maintenance
Fire Systems Maintenance
HVAC Maintenance
Lighting Supplies
Elevator Maintenance
Electrical Supplies
Building and Non-Structural Repairs
Pest Control
Maintenance Contracts
Air Filters
Permits and Registrations

<u>Security</u>
Security
Security Systems Maintenance
Security Supplies

30 Year Projection of Employer Pension Costs

Baseline Compared to Pension Reform

Assumes 7 Year Phase-In For State Contributions Beginning in FY 2012

In Millions

BASELINE

	Fiscal Year																														30 Yr
State	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	Total
PERS	118	274	450	648	865	1,094	1,333	1,380	1,461	1,513	1,561	1,611	1,662	1,717	1,774	1,838	1,906	1,979	2,056	2,138	2,220	2,307	2,399	2,482	2,584	2,687	2,796	2,908	3,026	3,149	53,936
TPAF	312	680	1,123	1,628	2,184	2,783	3,412	3,551	3,693	3,843	4,000	4,166	4,339	4,519	4,705	4,896	5,091	5,285	5,485	5,692	5,904	6,124	6,351	6,587	6,832	7,086	7,351	7,628	7,916	8,216	141,382
PFRS	54	119	193	277	366	461	555	577	597	619	640	664	688	710	732	756	779	802	826	853	883	913	948	983	1,020	1,065	1,109	1,153	1,200	1,246	21,788
SPRS	16	39	62	87	115	146	179	187	195	202	209	216	224	231	240	249	256	266	275	284	292	300	311	322	335	349	363	377	389	402	7,118
JRS	6	12	21	30	40	50	63	66	69	71	75	78	81	84	88	92	95	98	103	106	110	115	119	124	128	133	138	143	149	154	2,641
Total	506	1,124	1,849	2,670	3,570	4,534	5,542	5,761	6,015	6,248	6,485	6,735	6,994	7,261	7,539	7,831	8,127	8,430	8,745	9,073	9,409	9,759	10,128	10,498	10,899	11,320	11,757	12,209	12,680	13,167	226,865
Local																															
PERS	819	936	1,008	1,078	1,145	1,207	1,266	1,324	1,383	1,442	1,500	1,560	1,621	1,686	1,753	1,821	1,896	1,975	2,058	2,145	2,234	2,331	2,433	2,540	2,660	2,776	2,900	3,031	3,167	3,314	57,009
PFRS	950	1,033	1,107	1,174	1,239	1,302	1,360	1,424	1,488	1,548	1,596	1,643	1,696	1,748	1,797	1,845	1,893	1,958	2,011	2,069	2,134	2,196	2,266	2,345	2,442	2,559	2,669	2,777	2,885	2,996	56,150
Total	1,769	1,969	2,115	2,252	2,384	2,509	2,626	2,748	2,871	2,990	3,096	3,203	3,317	3,434	3,550	3,666	3,789	3,933	4,069	4,214	4,368	4,527	4,699	4,885	5,102	5,335	5,569	5,808	6,052	6,310	113,159
Grand Total	2,275	3,093	3,964	4,922	5,954	7,043	8,168	8,509	8,886	9,238	9,581	9,938	10,311	10,695	11,089	11,497	11,916	12,363	12,814	13,287	13,777	14,286	14,827	15,383	16,001	16,655	17,326	18,017	18,732	19,477	340,024

BASED ON REFORM (Including actuarial economic assumption changes adopted with the July 1, 2011 and July 1, 2012 Actuarial Reports)

	Fiscal Year																														30 Yr
State	12	13	14 *	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	Total
PERS	125	264	450	640	839	1,038	1,228	1,228	1,227	1,225	1,242	1,303	1,299	1,299	1,298	1,296	1,293	1,290	1,284	1,280	1,283	1,285	1,289	1,284	1,289	1,293	1,298	1,306	1,313	1,323	34,112
TPAF	287	615	989	1,425	1,895	2,379	2,859	2,900	2,939	2,991	3,042	3,092	3,139	3,184	3,226	3,265	3,299	3,330	3,360	3,362	3,361	3,358	3,353	3,347	3,339	3,331	3,324	3,319	3,315	3,313	84,939
PFRS	54	112	171	241	316	391	466	470	475	483	491	501	507	512	519	524	528	532	537	538	539	540	542	543	547	553	559	568	576	584	13,917
SPRS	13	26	46	66	88	111	135	139	142	146	149	153	156	159	162	166	168	171	174	177	176	176	177	178	180	182	187	191	193	195	4,383
JRS	5	12	19	28	37	46	56	56	57	58	60	61	63	63	64	65	67	68	68	69	70	72	74	75	76	77	79	81	82	84	1,790
Total	484	1,029	1,675	2,400	3,175	3,966	4,743	4,793	4,841	4,903	4,984	5,110	5,163	5,217	5,269	5,315	5,355	5,391	5,423	5,426	5,430	5,432	5,436	5,427	5,430	5,437	5,447	5,465	5,479	5,499	139,142
Local																															
PERS	776	741	823	879	914	942	961	975	988	1,000	1,013	1,077	1,081	1,087	1,091	1,095	1,098	1,100	1,098	1,096	1,109	1,123	1,141	1,154	1,172	1,191	1,211	1,234	1,254	1,281	31,705
PFRS	736	750	752	785	828	868	904	942	973	1,000	1,028	1,064	1,088	1,111	1,131	1,148	1,165	1,181	1,196	1,196	1,190	1,188	1,188	1,193	1,204	1,224	1,249	1,282	1,305	1,328	32,196
Total	1,512	1,491	1,575	1,664	1,742	1,809	1,865	1,917	1,961	2,000	2,041	2,141	2,169	2,197	2,222	2,243	2,264	2,281	2,294	2,292	2,299	2,311	2,328	2,347	2,376	2,415	2,460	2,516	2,560	2,609	63,901
Grand Total	1,996	2,520	3,250	4,064	4,918	5,775	6,607	6,710	6,802	6,903	7,025	7,251	7,332	7,415	7,491	7,558	7,618	7,672	7,717	7,718	7,729	7,743	7,764	7,774	7,806	7,852	7,907	7,980	8,038	8,107	203,043

REDUCTION IN CONTRIBUTION-BASELINE VS CURRENT REFORM PROPOSAL

	Fiscal Year																														30 Yr
State	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	Total
PERS	7	(10)	-	(8)	(26)	(56)	(105)	(152)	(234)	(288)	(319)	(308)	(363)	(418)	(476)	(542)	(613)	(689)	(772)	(858)	(937)	(1,022)	(1,110)	(1,198)	(1,295)	(1,394)	(1,498)	(1,602)	(1,713)	(1,826)	(19,824)
TPAF	(25)	(65)	(134)	(203)	(289)	(403)	(553)	(651)	(754)	(852)	(958)	(1,074)	(1,200)	(1,335)	(1,479)	(1,631)	(1,792)	(1,954)	(2,126)	(2,330)	(2,543)	(2,766)	(2,997)	(3,240)	(3,492)	(3,755)	(4,027)	(4,309)	(4,601)	(4,904)	(56,442)
PFRS	-	(7)	(22)	(36)	(50)	(70)	(89)	(107)	(122)	(136)	(149)	(163)	(181)	(198)	(213)	(232)	(251)	(270)	(289)	(315)	(344)	(373)	(406)	(440)	(473)	(512)	(550)	(585)	(624)	(662)	(7,871)
SPRS	(3)	(13)	(16)	(21)	(27)	(35)	(44)	(48)	(53)	(56)	(60)	(63)	(68)	(72)	(78)	(83)	(88)	(95)	(101)	(107)	(116)	(124)	(134)	(144)	(155)	(167)	(176)	(186)	(196)	(207)	(2,735)
JRS	(1)	-	(2)	(2)	(3)	(4)	(7)	(10)	(12)	(13)	(15)	(17)	(18)	(21)	(24)	(27)	(28)	(30)	(35)	(37)	(40)	(43)	(45)	(49)	(52)	(56)	(59)	(62)	(67)	(70)	(851)
Total	(22)	(95)	(174)	(270)	(395)	(568)	(799)	(968)	(1,175)	(1,345)	(1,501)	(1,626)	(1,831)	(2,044)	(2,270)	(2,516)	(2,772)	(3,039)	(3,322)	(3,647)	(3,980)	(4,327)	(4,692)	(5,071)	(5,469)	(5,884)	(6,311)	(6,744)	(7,201)	(7,669)	(87,723)
Local																															
PERS	(43)	(195)	(185)	(199)	(231)	(265)	(305)	(349)	(395)	(442)	(487)	(483)	(540)	(599)	(662)	(726)	(798)	(875)	(960)	(1,049)	(1,125)	(1,208)	(1,292)	(1,386)	(1,488)	(1,585)	(1,689)	(1,797)	(1,913)	(2,033)	(25,304)
PFRS	(214)	(283)	(355)	(389)	(411)	(434)	(456)	(482)	(515)	(548)	(568)	(579)	(608)	(637)	(666)	(697)	(728)	(777)	(815)	(873)	(944)	(1,008)	(1,078)	(1,152)	(1,238)	(1,335)	(1,420)	(1,495)	(1,580)	(1,668)	(23,954)
Total	(257)	(478)	(540)	(588)	(642)	(700)	(761)	(831)	(910)	(990)	(1,055)	(1,062)	(1,148)	(1,237)	(1,328)	(1,423)	(1,525)	(1,652)	(1,775)	(1,922)	(2,069)	(2,216)	(2,371)	(2,538)	(2,726)	(2,920)	(3,109)	(3,292)	(3,492)	(3,701)	(49,258)
Grand Total	(279)	(573)	(714)	(858)	(1,036)	(1,268)	(1,560)	(1,799)	(2,084)	(2,335)	(2,556)	(2,687)	(2,979)	(3,281)	(3,598)	(3,938)	(4,297)	(4,691)	(5,097)	(5,568)	(6,049)	(6,543)	(7,063)	(7,609)	(8,195)	(8,803)	(9,420)	(10,036)	(10,693)	(11,370)	(136,980)

* FY14 local PERS and PFRS employer contributions appearing in the July 1, 2012 actuarial valuation reports were adjusted upward by $3 million for locations who failed to file timely reports of contributions.