

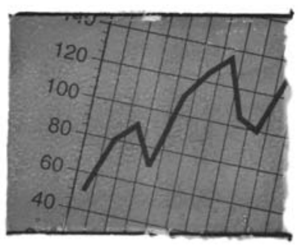



ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2013 - 2014

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2013

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... D-427 to D-442

Fiscal Summary ($000)

	Expended FY 2012	Adjusted Appropriation FY 2013	Recommended FY 2014	Percent Change 2013-14
State Budgeted	$3,292,595	$3,892,227	$4,056,569	4.2%
Federal Funds	$0	$0	$0	—
Other	$31,535	$43,590	$43,590	—
Grand Total	$3,324,130	$3,935,817	$4,100,159	4.2%

Personnel Summary - Positions By Funding Source

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2013-14
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

Property Rentals, Insurance and Utilities

- The FY 2014 Governor's Budget recommends a reduction of $42.2 million in Property Rentals, Insurance and Utilities. Net property rental appropriations decrease by $10.2 million, primarily due to $7.5 million in savings achieved by the refunding of the Greystone Psychiatric Hospital bonds and $3.4 million in increases in direct rent reimbursements. The appropriation for the Tort Claims Liability Fund decreases by $20 million under the assumption that supplemental funding required in FY 2013 will not needed in FY 2014. A $10 million reduction in workers' compensation is recommended due to the expiration of Sick Leave Injury claims and the projected impact of cost-control measures.

Aid to Independent Authorities, Capital Projects

- The FY 2014 Governor's Budget recommends a reduction of $48 million in appropriations to fund debt service on bonds issued by independent authorities as well as operating support in certain cases. The most significant changes are reductions in the amounts payable for debt service and operating costs for the New Jersey Sports and Exposition Authority (NJSEA). Debt service for the NJSEA is proposed to be reduced by $18.3 million, consistent with the maturity schedule on outstanding bonds. An operating subsidy of $27.4 million is eliminated on the premise that insufficient information is available to determine whether any subsidy will be needed in FY 2014.

- Debt service on New Jersey Building Authority bonds is reduced by $76.7 million, in anticipation of savings from debt refinancing.

- Appropriations for debt service on the outstanding Garden State Preservation Trust (GSPT) bonds are proposed to increase by $20 million because the savings from the FY 2012 GSPT debt refinancing were fully realized in FY 2013.

- The FY 2014 Governor's Budget recommends an appropriation of $10 million for Life Safety and Emergency Project-Statewide, which in the past has funded a variety of fire code compliance, emergency repair and life safety capital projects.

Pensions

- The Budget provides total combined appropriations in FY 2014 of $1.676 billion in employer contributions to the defined benefit retirement systems. As the third annual payment under P.L.2010, c.1, this total equals 3/7 of the actuarially required contribution and is $646 million, or 63 percent, higher than the FY 2013 contribution. About $615.5 million of these appropriations are budgeted in Interdepartmental Accounts and they increase by $248.3 million in FY 2014.

Highlights (Cont'd)

Proposed State-Administered Retirement System Contributions			
System	**Gross Contribution**	**Deferred per P.L.2010, C.1**	**Minimum 3/7th Contribution**
PERS	$ 1,050,074,667	($ 600,042,667)	$ 450,032,000
PFRS	$ 398,052,667	($ 227,458,667)	$ 170,594,000
SPRS	$ 106,978,667	($ 61,130,667)	$ 45,848,000
JRS	$ 44,683,333	($ 25,533,333)	$ 19,150,000
TPAF	$ 2,308,149,667	($1,318,942,667)	$ 989,207,000
CPFPF	$ 864,000	($ 0)	$ 864,000
Totals	$3,908,803,000	($2,233,108,000)	$ 1,675,695,000
Source: Division of Pensions and Benefits			

Health Care Benefits

- The FY 2014 Governor's Budget recommends total appropriations of $1.396 billion to fully fund health benefits for active State employees in FY 2014. This represents an increase of $8.7 million, or 0.63 percent, for medical, prescription drug, and dental coverage. Considering revised FY 2013 cost estimates, rate increases developed by the State's actuarial consultants, and other assumptions made by the Division of Pensions and Benefits, the OLS concludes that FY 2014 projected costs may exceed the recommended appropriations by $45 to $50 million.

Post-Retirement Medical Benefits

- The FY 2014 Governor's Budget proposes total appropriations of $1.540 billion for Post Retirement Medical Benefits, an increase of $99.8 million, or 6.9 percent above FY 2013 adjusted appropriations. About $13.7 million of this increase affects the Interdepartmental Accounts. Considering revised FY 2013 cost estimates, rate increases developed by the State's actuarial consultant, and other assumptions made by the Division of Pensions and Benefits, total projected retiree prescription drug costs in Interdepartmental Accounts may exceed the recommended appropriations by approximately $20 million.

- The FY 2014 Governor's Budget projects the need for FY 2013 supplemental appropriations totaling $16.5 million to fully fund retiree health benefits in Interdepartmental Accounts appropriations. Considering revised cost estimates, expenditure information developed by the State's actuarial consultant, and other assumptions made by the Division of Pensions and Benefits, this projection may be $9 million higher than necessary.

Highlights (Cont'd)

Other Interdepartmental Accounts: Contingency Funding

- The FY 2014 Governor's Budget proposes an increase of $3 million to provide funding for the continued delivery of services and programs necessary to protect the health and safety of the residents of the State of New Jersey in the event that the federal budget process results in sequestration, leading to reduced federal funds for critical programs including, but not limited to, education, public health and safety, and environmental programs.

- The budget indicates that the Governor is prepared to provide $40 million in supplemental FY 2013 funding for Disasters and Emergencies, to ensure that expenses arising from Super Storm Sandy not reimbursed by the federal government can be met. No additional funding for this purpose is recommended in FY 2014.

Salary Increases and Other Benefits

- The FY 2014 Governor's Budget recommendation for Salary Increases and Other Benefits is $67.390 million, intended to fund salary increments for eligible employees in the executive, legislative, and judicial branches of government in New Jersey. The amount budgeted for COLAs and increments in FY 2014 is $44.093 million for the Executive Branch, $10.438 million for the Judicial Branch and $359,000 for the Legislative Branch. Contractual salary increases have been negotiated in four ratified contracts including the Communication Workers of America, AFL-CIO (CWA); the International Federation of Professional and Technical Engineers (IFPTE); the American Federation of State, County, and Municipal Employees and include the following increases: 0 percent in FY 2012, 0 percent in FY 2013, one percent in FY 2014, and 1.75 percent in FY 2015.

Background Paper

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2012	Adj. Approp. FY 2013	Recom. FY 2014	Percent Change 2012-14	Percent Change 2013-14
General Fund					
Direct State Services	$2,246,068	$2,638,608	$2,834,462	26.2%	7.4%
Grants-In-Aid	880,157	1,062,310	1,077,775	22.5%	1.5%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	166,370	191,309	144,332	(13.2%)	(24.6%)
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$3,292,595**	**$3,892,227**	**$4,056,569**	**23.2%**	**4.2%**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	**$0**	**$0**	**$0**	**0.0%**	**0.0%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$3,292,595**	**$3,892,227**	**$4,056,569**	**23.2%**	**4.2%**
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$31,535	$43,590	$43,590	38.2%	0.0%
Grand Total	**$3,324,130**	**$3,935,817**	**$4,100,159**	**23.3%**	**4.2%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2012-14	Percent Change 2013-14
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	**0**	**0**	**0**	**0.0%**	**0.0%**

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	N/A	N/A	N/A	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

GENERAL GOVERNMENT SERVICES

Direct State Services

Property Rentals

Property Rentals appropriations encompass funding for existing and anticipated leases of office space and other facilities used by State agencies, payment for debt service leases, and payments in lieu of property taxes on facilities occupied by State agencies, as well as payments for various fire safety systems and office furnishings. The accounts also reflect the cost of rent for agencies that is ultimately financed from sources other than the General Fund, such as federal funds. The State recovers, from non-State fund sources, the cost of renting and maintaining office space. These recoveries, referred to as "direct rent," serve to reduce the cost to the General Fund. The net cost to the General Fund is referred to as "central rent."

Property Rentals	**$234,068**	**$227,259**	**($6,809)**	**(2.9%)**	**D-430**

This line item represents gross property rentals costs. This proposed reduction reflects lower costs directly related to the rental of real property for the conduct of State business. The factors causing this cost decrease are discussed below with respect to each component of the Property Rentals total.

Existing and Anticipated Leases	**$188,013 (S) $6,525**	**$195,340**	**$ 802**	**.4%**	**D-431**

The Existing and Anticipated Leases appropriation comprises the gross cost for office space and other property rentals for State agencies and includes (but is not limited to) rent payments, taxes, janitorial services, utilities, snow removal, advertising, moving, and security costs. According to the Administration, the proposed increase of $802,000 results from: (1) an increase of $7.456 million in unspecified lease escalations; 2) a reduction of $500,000 in FY 2013 supplemental funding for the cost of maintaining unused facilities at Greystone and Marlboro psychiatric hospitals; 3) a reduction of $3.925 million in FY 2013 supplemental funding for "Management Restructuring in Progress", that pertains to streamlined fleet management ($2 million), post warranty equipment maintenance costs ($1.425 million) and print shop consolidation ($500,000); (4) the shift of $1.73 million for Thomas Edison State College lease costs to the college's budget in FY 2014; (5) $354,000 for savings of utility costs through lease payments; and (6) a reduction of $145,000 for anticipated new leases that were not approved.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Economic Development Authority	**$7,665**	**$7,707**	**$ 42**	**.5%**	**D-431**

The State has capital lease agreements with the New Jersey Economic Development Authority (EDA) for various facilities and facility improvements that the EDA has financed around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA. The line item above represents the debt service on bonds issued for the acquisition, renovation, and construction of certain land, office buildings and improvements in Asbury Park, Camden, Capitol Place One, Cherry Hill, five State Police Barracks, as well as improvements related to parking, infrastructure, landscaping, passenger shuttle, and open space elements at Liberty State Park. This proposed increase for the EDA consists of minor changes in debt service on the State's capital lease agreements with the EDA, as shown below:

Economic Development Authority ($000's)	FY 2013 Adjusted Appropriation	FY 2014 Recommendation	Change
Asbury Park	$1,026	$1,029	$3
Camden	$1,415	$1,419	$4
Capital Place One	$2,083	$2,089	$6
Cherry Hill	$ 737	$ 738	$1
Liberty State Park	$1,438	$1,463	$25
State Police Barracks	$966	$969	$3
Total	**$7,665**	**$7,707**	**$42**
Source: Office of Management and Budget, Department of the Treasury.			

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Other Debt Service Leases and Tax Payments	**$31,854**	**$24,212**	**($7,642)**	**(24.0%)**	**D-431**

The Other Debt Service Leases and Tax Payments appropriation consists primarily of debt service costs, taxes, and payments in lieu of taxes (PILOTs) for facilities financed by independent public entities and occupied by State agencies, including costs other than debt service of the EDA facilities noted above. In FY 2013, the largest single cost component reflected in this appropriation is $15.6 million in annual debt service on bonds issued by the Health Care Facilities Financing Authority for Greystone Psychiatric Hospital. The proposed reduction in this category of funding is due primarily to $7.5 million in savings achieved by the refunding of Greystone bonds, which was concluded on April 18, 2013. All components of change are set forth below:

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Other Debt Service Leases and Tax Payments ($000's)	FY 2013 Adjusted Appropriation	FY 2014 Recommendation	$ Change
Asbury Park Administration Fee	$ 20	$ 20	$ 0
Asbury Park PILOT	$ 75	$ 75	$ 0
Bridgeton Debt Service	$ 1,489	$ 1,489	$ 0
Bridgeton Operating Expenses	$ 470	$ 482	$ 12
Camden 101 Haddon Ave. PILOT	$ 369	$ 369	$ 0
Camden 101 Haddon Ave. Administration Fees	$ 20	$ 20	$ 0
Capitol One Taxes	$ 1,921	$ 2,035	$ 114
Capital One-EDA Administration Fees	$ 22	$ 22	$ 0
DOT Cherry Hill PILOT	$ 109	$ 109	$ 0
DOT Cherry Hill EDA Administration Fee	$ 20	$ 20	$ 0
Greystone Hospital Project	$15,653	$ 8,153	$(7,500)
Justice Complex Taxes	$ 9,554	$ 9,432	$ (122)
Taxation Building Debt Service	$ 691	$ 691	$ 0
Taxation Building Insurance	$ 17	$ 18	$ 1
Taxation Building Property Taxes	$ 1,368	$ 1,201	$ (167)
Taxation Building TDA Taxes	$ 56	$ 56	$ 0
State Police Barracks EDA Administration Fee	$ 0	$ 20	$ 20
Total	$31,854	$24,212	$(7,642)
Source: Office of Management and Budget, Department of the Treasury.			

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Less: Total Deductions	**$88,904**	**$92,328**	**$ 3,424**	**3.9%**	**D-431**

This line item represents "direct rent" reimbursements to State agencies from federal and other dedicated funds to defray facilities occupancy costs, based upon the use of those facilities in delivering programs and services supported by those resources. The proposed increase in "direct rent" reimbursements of $3.424 million is projected to result from $3.242 million for

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

lease escalations, $104,000 for new or expanded leases, and $78,000 for rent reimbursement from the Office of Public Finance.

Net Property Rentals	**$145,153**	**$134,931**	**($10,222)**	**(7.0%)**	**D-431**

The "central rent" requirement for FY 2013 is the net result of the increases and decreases in the Property Rental items noted above.

Additions, Improvements and Equipment	**$11**	**$0**	**($ 11)**	**(100.0%)**	**D-431**

The Additions, Improvements and Equipment appropriation provides funding for installment payments on Line of Credit (LOC program) that were drawn on to finance State additions and improvements to State-owned buildings and for the purchase of equipment and improvements such as fire sprinklers and office furnishings. The LOC program provides a way for the State to achieve short term financing of equipment acquisitions at competitive (low) rates.

The proposed FY 2014 decreased appropriation results from concluding installment payments on previous financings for furniture and equipment.

Insurance and Other Services

The Insurance and Other Services appropriations fund insurance premiums for property, casualty, and special insurance policies for coverage against losses to State-owned real property, machinery and fine art objects. The State self-administers its insurance programs and is self-insured for Tort Claims, Workers' Compensation, automobile (vehicle claims) liability, risks and claims arising from the Foster Parents Program, and the UMDNJ Self-Insurance Reserve Fund.

Tort Claims Liability Fund (C.59:12-1)	**$15,000 (S) $20,000**	**$15,000**	**($20,000)**	**(57.1%)**	**D-431**

The Tort Claims Liability Fund provides funding for the payment of claims arising from wrongful actions or omissions (not based on contractual obligations), indemnification of pool attorneys engaged by the Public Defender for the defense of indigents, indemnification of a designated pathologist engaged by the State Medical Examiner, and direct costs of legal, administrative, and medical services related to the investigation, mitigation, and litigation of tort claims against public entities under N.J.S. 59:1-1 et. seq., the "New Jersey Tort Claims Act." Budget language provides that additional funds may be appropriated for the purpose of paying tort claims under N.J.S.A. 59:12-1 as recommended by the Attorney General and as determined by the Director of the Division of Budget and Accounting.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Over the last four years, significant and unanticipated settlements have occurred necessitating supplemental appropriations to cover the cost of tort claims associated with those settlements. In FY 2010, FY 2011, and FY 2012, the Tort Claims Liability Fund was underfunded by $9.752 million, $18.943 million, and $7.15 million, respectively, due to a few large cases settling and generating unanticipated tort claims in each of those years. In FY 2013, $15 million was originally appropriated to pay for projected claims. However, nine unanticipated settlements occurred before the end of the first half of FY 2013 and an additional five cases are expected to settle before May 31, 2013. As a result, $20 million in supplemental appropriations are projected to cover these additional costs, of which $17.35 million are already approved.

The FY 2014 Governor's Budget recommends an appropriation of $15 million to fund tort claims in FY 2014 based on the most recent caseload projections. Language is continued in the FY 2014 Budget authorizing additional appropriations if needed to fund all claims. Based on recent history, it is unlikely that the recommended appropriation will be adequate.

Workers' Compensation Self-Insurance Fund	**$102,990**	**$92,990**	**($10,000)**	**(9.7%)**	**D-431**

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, redistribution of medical costs due to focused utilization management and statutory increases in the yearly rates for temporary, permanent partial, and permanent total disability benefits. In addition, annual Worker's Compensation costs increased due to the transfer of costs from the State Sick Leave Injury (SLI) program. The elimination of the SLI program shifted $10.7 million in outstanding claims costs to the Workers' Compensation program in FY 2011.

The proposed reduction in FY 2014 reflects the conclusion of payments for certain SLI claims, a lower than expected number of temporary workers' compensation claims, and a reduction in the injury rate. In addition, the Administration reports current year costs are being controlled due to higher utilization of in-network medical care providers, increased medical cost discounts, and better program management. As a result, the Administration anticipates a FY 2013 year-end lapse of $6 million.

Casualty Insurance Premium Payments	**$693**	**$508**	**($ 185)**	**(26.7%)**	**D-431**

The Casualty Insurance Premium Payments appropriation is used to purchase automobile excess liability insurance, aircraft liability and physical hull damage insurance, workers'

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

compensation for special classes of State employees supported by federal or non-State funds, and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. According to the Administration, current casualty premiums include the New Jersey State Police Marine Fleet and submerged vessels as well as Aircraft Hull and Liability Insurance.

The FY 2014 Governor's Budget recommends a reduction of $185,000 resulting from the negotiation of lower premium rates in FY 2013 and the divestiture of five State Police helicopters.

Special Insurance Policy Premium Payment	**$168**	**$158**	**($ 10)**	**(6.0%)**	**D-431**

The Special Insurance Policy Premium Payment Account is used to purchase special insurance policies such as: the New Jersey Network Public Broadcasters Liability (required by the Public Broadcasting Service); the Treasurer's Bond (the State Treasurer is bonded for the handling of various funds); and Blanket Position Bond insurance, which guarantees payment to the State for losses caused through employees' fraudulent or dishonest acts. In addition, special accident and health insurance is purchased to provide for medical expense reimbursement and disability and death benefits to students and volunteers who otherwise do not qualify as State employees and are precluded from collecting workers' compensation benefits.

The FY 2014 Governor's Budget anticipates a reduction in the Special Insurance Premium payments of $10,000, or 6 percent due to the renewal in FY 2013 of the special crime insurance policy. This is a $10,000, three-year policy for which no premium payment is due in FY 2014.

Utilities and Other Services

Public Health, Environmental and Agricultural Laboratory	**$6,075**	**$3,575**	**($2,500)**	**(41.2%)**	**D-431**

The new Public Health, Environmental, and Agricultural Laboratory is a multiagency facility that is being financed and developed through the New Jersey Building Authority. It is located on the grounds of the New Jersey State Police Division Headquarters in West Trenton. The lab was designed to replace the existing Department of Health and Senior Services and the Department of Agriculture laboratory and provide the Department of Environmental Protection with testing services currently contracted out to private laboratories.

This proposed reduction reflects lower gas and electricity costs of $2.395 million and lower water and sewer costs of $105,000 at the new lab. Due to the closing of the old lab, current

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

year costs are anticipated to be lower. As a result, the Administration anticipates a FY 2013 year-end lapse of $1.5 million. Additional fuel and utility costs for the old lab are budgeted in the Fuel and Utilities account and a maintenance contract for the old lab is budgeted in the Household and Security accounts.

Fuel and Utilities	**$1,210**	**$0**	**($1,210)**	**(100.0%)**	**D-431**

The Fuel and Utilities appropriation provides funding for heating, electrical, janitorial, and trash removal needs for various State-owned buildings, including the Capitol Complex, that houses a portion of the State workforce as well as some fuel and utility costs for State departments and the old laboratory. Budget language authorizes the Director of the Division of Budget and Accounting to transfer or credit funds to this account from other various spending agencies to reflect savings associated with electrical deregulation, fuel switch, and other energy-conservation initiatives; to transfer to other State departments such sums as may be required to pay fuel and utility costs; and to appropriate revenue generated from the sales of Solar Renewable Energy Credits (SRECs) to fund energy-related savings initiatives as determined by the Director of Energy Savings within the Department of the Treasury, subject to the approval of the Director of the Division of Budget and Accounting. In addition, the Budget authorizes the appropriation of up to $42.5 million from the Clean Energy Fund for State facility utility costs.

According to the Administration, the reduction is based on a decrease in energy costs for State-owned facilities that are projected to continue through FY 2014, due largely to negotiated rate reductions and energy conservation measures implemented by Treasury and the State Energy Office. This proposed reduction is most likely due to fuel and utility cost savings and energy conservation arising from the closure of the old laboratory in downtown Trenton.

Household and Security	**$5,651**	**$7,624**	**$ 1,973**	**34.9%**	**D-431**

The Household and Security appropriation funds contract costs for household and security services, such as janitorial and trash removal services, and State Police civilian guards who provide security services in State buildings and facilities. According to the Administration, the proposed increase results from an increase of $382,000 for the contract for the maintenance of state-owned buildings at the new Public Health, Environmental, and Agricultural Laboratory in West Trenton, together with a shift of $417,000 in current costs of that contract from the Department of the Treasury's budget; and $1.174 million for other contractual/prevailing wages increases, including $945,000 for janitorial services, $211,000 for guard services, and $18,000 for trash removal.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Grants-In-Aid

Aid to Independent Authorities

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
New Jersey Sports and Exposition Authority Debt Service	**$89,753**	**$71,462**	**($18,291)**	**(20.4%)**	**D-431**

P.L.1971, c. 137 created the New Jersey Sports and Exposition Authority (NJSEA). The law provided for the acquisition, ownership, and operation of stadiums, arenas, entertainment facilities, convention centers, and racetracks including the Meadowlands Sports Complex, the Monmouth Park Racetrack, the Atlantic City Boardwalk Hall, the Atlantic City Convention Center, Rutgers University stadium, and the Wildwood Convention Center. The NJSEA bonds originally issued were secured by the revenues the NJSEA received from operating the facilities; however, as the original issue bonds were refinanced, the bonds became secured, in part, by State appropriations.

According to the January 18, 2013 State of New Jersey Debt Report for Fiscal Year 2012, the total amount of State Contract Bonds outstanding is $549.275 million with a final maturity date of 2026. The recommended FY 2014 appropriation is consistent with the debt service schedule presented in the debt report.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
New Jersey Performing Arts Center, EDA	**$5,565 (S) $952**	**$5,578**	**($ 939)**	**(14.4%)**	**D-432**

The New Jersey Performing Arts Center (NJPAC) was authorized by P.L.1974, c.80. In 1996, the Economic Development Authority issued $62.91 million in bonds for the construction of the NJPAC including a state-of-the-art center with multi-purpose theaters, support facilities, surface parking, and open plazas. State appropriations for the NJPAC are used to pay the State's debt service obligations pursuant to a lease with the New Jersey Economic Development Authority for real property, infrastructure, and the Performing Arts Center building.

The New Jersey Performing Arts Center bonds were refinanced in FY 2010. The 2012 Debt Report indicates that refunding bonds totaled $26.92 million, with a final maturity date of July 15, 2016. The FY 2013 adjusted appropriation is not consistent with the maturity schedule, totaling approximately $1 million more than the debt report indicates is payable in debt service. 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

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Arts Center through its day to day operations, such as interest on a line of credit. The proposed FY 2014 recommended appropriation of $5.578 million is consistent with the maturity schedule on outstanding bonds.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Business Employment Incentive Program, EDA-Debt Service	**$28,069**	**$27,963**	**($ 106)**	**(.4%)**	**D-432**

P.L.1996, c.26, known as the Business Employment Incentive Act (BEIP), authorized the Economic Development Authority to award grants to businesses expanding or relocating within the State. Seven years later, P.L.2003, c. 166 authorized the Economic Development Authority to finance the grants with bond offerings and to modify the terms and conditions of the grants when refinanced. Grants may be awarded for up to ten years and are between 10 and 50 percent of the State income taxes withheld on the newly created jobs or between 10 and 30 percent of the estimated tax of partners of an eligible partnership. The debt service on the bonds is payable pursuant to a contract between the State Treasurer and the Economic Development Authority and is subject to appropriation by the Legislature.

According to the FY 2012 Debt Report, the total amount of BEIP bonds issued is $200.815 million with $93.730 million remaining in bonds outstanding and a final maturity date of November 1, 2015. The FY 2014 Governor's Budget recommends an appropriation of $27.963 million which is 0.4 percent less than the FY 2013 adjusted appropriation for debt service payments. This recommended appropriation is consistent with the maturity schedule on outstanding bonds.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Liberty Science Center	**$11,036**	**$10,995**	**($ 41)**	**(.4%)**	**D-432**

This appropriation comprises both debt service and operating costs associated with the Liberty Science Center (LSC). To the extent the recommended FY 2014 appropriation of $10.995 million is not needed for debt service obligations, which according to the FY 2012 Debt Report total $7.348 million, the remaining amount is available to support LSC operations.

Under P.L.1974, c.80, the Economic Development Authority is authorized to issue bonds for the design, construction, renovation, expansion, and acquisition of science exhibits for the LSC begun in 2003. The LSC, located in Jersey City, is a science museum that provides interactive science and technology education for the study and exploration of nature, humanity, and technology. Expansion of the LSC was completed in 2007. The expansion included the renovation of the existing building and the construction of a new addition, the renovation of a parking lot, and the improvement of the Central Railroad of New Jersey terminal at Liberty State Park.

According to the FY 2012 Debt Report, LSC bonds issued for LSC projects totaled $95.270 million with $82.610 million in bonds outstanding and a final maturity date of March 1, 2027. Debt service on the bonds outstanding is estimated to be approximately $7.348 million in FY

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

2014. Budget language provides that the Liberty Science Center appropriation is to be used not only for debt service, but also for operational costs. Budget language provides that the amount of operational support for the Liberty Science Center is to be determined by the State Treasurer pursuant to an agreement between the State Treasurer and the Liberty Science Center. Given that LSC FY 2014 debt service costs, as reported in the maturity schedule on outstanding bonds are estimated to be $7.348 million, LSC FY 2014 operating support will be $3.647 million, about the same as FY 2013. The proposed reduction of $41,000 represents a decrease in FY 2014 debt service costs.

Designated Industry Economic Growth and Development, EDA	**$4,136**	**$2,903**	**($1,233)**	**(29.8%)**	**D-432**

Pursuant to P.L.2003, c.166 and a bond issuance approved by the Joint Budget Oversight Committee, this appropriation funds debt service related to the Economic Development Authority's (EDA) sale of $50.7 million in bonds maturing in 2014. The proceeds of these bonds funded recoverable grants to technology companies, investments in early stage development life science and medical device companies, and the development or expansion of three commercialization centers for innovative technologies located in Camden, New Brunswick, and Newark. The FY 2014 appropriation is consistent with the final debt service payment on outstanding bonds set forth in the FY 2012 Debt Report.

New Jersey Sports and Exposition Authority-Operations	**(S)$27,400**	**$0**	**($27,400)**	**(100.0%)**	**D-432**

The proposed reduction discontinues FY 2013 supplemental funding to support New Jersey Sports and Exposition Authority (NJSEA) operations. According to the Administration, the need for further funding for NJSEA operations cannot be determined at this time and therefore none is recommended in the FY 2014 budget. The OLS notes that budget language concerning State funding for the NJSEA provides for supplemental appropriations if necessary to "...maintain the core operating functions of the authority..." State appropriations for NJSEA operations have increased annually since commencing in FY 2011 at about $4 million.

Capital Construction

Statewide Capital Projects

Life Safety and Emergency Projects-Statewide	**$0**	**$10,000**	**$10,000**	**—**	**D-432**

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

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. 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.

The FY 2014 budget recommends an appropriation of $10 million for "Life Safety and Emergency Projects-Statewide", an appropriation that in the past has funded fire code compliance, emergency repairs and life safety capital projects. A budget footnote 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 several prior budgets as well. According to the Administration, due to historic and ongoing resource constraints, the CCBP and the Office of Management and Budget (OMB) have been limited to recommending funding only 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, CCBP and the OMB have recommended funding for only the most extremely urgent proposals. According to the Administration, the proposed $10 million increase will permit the CCBP and the OMB to reach slightly beyond this limited tier to fund a small portion of outstanding needs that are demonstrably necessary and appropriate. The OLS notes that the Administration has yet to respond to a request to identify the projects that would be considered for funding.

<u>New Jersey Building Authority Debt Service – General State Projects</u>

P.L.1981, c.120 created the New Jersey Building Authority (authority) for the purpose of financing, acquiring, constructing, reconstructing, rehabilitating, and improving office buildings and related facilities to meet the needs of State agencies. The authority is also responsible for the design and construction of correctional facilities, as well as the restoration and renovation of historic public buildings. The authority is authorized to issue bonds and notes to construct facilities for leasing to the State. The outstanding Building Authority bonds are secured by annual rental payments from the State which are subject to annual appropriations by the Legislature.

New Jersey Building Authority	**$113,309**	**$36,616**	**($76,693)**	**(67.7%)**	**D-432**

According to the Administration, the proposed reduction is based on the anticipation of debt refinancing savings. The FY 2012 Debt Report indicates that outstanding authority bonds totaled $584.4 million, with FY 2014 debt service of $88.4 million.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Garden State Preservation Program					
Garden State Preservation Trust Fund Account	**$78,000**	**$97,716**	**$19,716**	**25.3%**	**D-433**

The Garden State Preservation Trust (GSPT) was established under a 1998 constitutional amendment and P.L.1999, c.152 (N.J.S.A.13:8C-1 et seq.) as an independent State financing authority to issue bonds for the preservation of open space, farmland, and historic properties. Bonds issued by the GSPT are backed by annual appropriations of up to $98 million annually of constitutionally dedicated Sales and Use Tax revenues. The Garden State Preservation Trust Act authorized the issuance of $1.15 billion of bonds through FY 2009 for open space and farmland preservation purposes. After FY 2009, the act provides only for the issuance of refunding bonds. Total bonds outstanding as of June 30, 2012 were $1.025 billion, with a final maturity on November 1, 2028. The constitutional dedication of revenues that support the GSPT bonds expires on June 30, 2029.

In April 2012, the GSPT issued $281 million in refunding bonds that resulted in debt service reductions in FY 2012 and FY 2013. The proposed increase provides the necessary funding to support debt service in FY 2014 and is consistent with the current maturity schedule on outstanding bonds.

EMPLOYEE BENEFITS

There are five main categories of appropriations within the Employee Benefits accounts: Pensions, Health Benefits, Post Retirement Medical Benefits, employer taxes and pension bond debt service. Most State employees, including those of State higher education institutions, and most employees of counties, municipalities, and school districts, are members of one of the seven State retirement systems: Alternate Benefits Program, Defined Contribution Retirement Program, Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS), Judicial Retirement System (JRS). The first two plans are defined contribution plans and the other five are defined benefits plans. In addition there are two closed defined benefit systems, the Consolidated Police and Firemen's Pension Fund (CPFPF), and Prison Officer's Pension Fund (POPF) that enroll no new members. Under current law, all defined pension benefit plans are subject to actuarial valuation every year and actuarial experience studies every three years.

The following table summarizes the recommended changes in these appropriations that are included in the Interdepartmental Accounts section of the FY 2014 Governor's Budget. Other appropriations for employee Benefits are included in the budgets for the Department of Education and the Department of the Treasury.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Table 1: EMPLOYEE BENEFITS			
State and Higher Education Employees			
Changes in Appropriations by Program, Adjusted FY 2013 to Recommended FY 2014 ($000)			
	Change in Direct State Service (State Employees)	**Change in Grants-In-Aid (Higher Education)**	**Total Change DSS and GIA**
Pensions	$230,412	$ 22,359	$252,771
Pensions – Non-Contributory Insurance	($ 4,243)	$ 2,132	($ 2,111)
Volunteer Emergency Survivor Benefit	$ 15	$ 0	$ 15
Total Health Benefits Active	($ 13,924)	$ 22,652	$ 8,728
Post Retirement Medical Benefits	$ 305	$ 13,425	$ 13,730
Employer Taxes	$ 4,484	$ 2,379	$ 6,863
Pension Bonds	$ 9,180	$ 530	$ 9,710
Total	$226,229	$ 63,477	$289,706

The FY 2014 Governor's Budget recommends an appropriation of about $3.422 billion to provide funding for benefits for State employees and retirees (Direct State Services) and employees and retirees of State higher educational institutions (Grants-In-Aid). This is $289.706 million, or 9.25 percent, higher than the FY 2013 adjusted appropriation of $3.133 billion. This proposed increase is due to: (1) growth of $251 million in pensions; (2) an increase of $8.7 million in active health benefits; (3) growth of $13.7 million in retiree health benefits; (4) an increase in debt service on pension bonds of $9.7 million; and (5) an increase of $6.9 million in employer taxes. Details of the Direct State Services and Grants-In-Aid that show each of five categories of the Employee Benefits budget are discussed in order below.

Direct State Services

Employee Benefits	**$2,251,431**	**$2,477,660**	**$226,229**	**10.0%**	**D-437**

As displayed in Table 1 above, the proposed increase in funding for employee benefits for active and retired State employees is due primarily to $230 million in increased defined benefits pension costs for PERS, TPAF, PFRS, SPRS, and JRS pursuant to P.L.2010, c.1 representing the 3/7ths of the FY 2014 actuarially required contribution, with additional increases of $4.5 million in employer taxes; and $9.2 million in pension bond debt service offset by $4.2 million in reduced non-contributory insurance costs (death benefit) and $13.9

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

million in reduced health benefit funding. The changes in each employee benefits appropriation are explained below.

Pensions

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System	**$242,092**	**$411,645**	**$169,553**	**70.0%**	**D-437**
Police and Firemen's Retirement System	**$57,215**	**$88,207**	**$30,992**	**54.2%**	**D-437**
Police and Firemen's Retirement System (P.L.1979, c.109)	**$1,785**	**$2,631**	**$ 846**	**47.4%**	**D-437**
State Police Retirement System	**$25,582**	**$45,848**	**$20,266**	**79.2%**	**D-437**
Judicial Retirement System	**$11,643**	**$19,150**	**$ 7,507**	**64.5%**	**D-438**
Teachers' Pension and Annuity Fund	**$1,641**	**$2,536**	**$ 895**	**54.5%**	**D-438**
Total, Defined Benefit Retirement Systems	**$339,958**	**$570,017**	**$230,059**	**67.7%**	**--**

P.L.2010, c.1 requires the State, beginning in FY 2012, to make in full the annual employer's contribution, as computed by the actuaries, to the PERS, TPAF, PFRS, SPRS, JRS, CPFPF, and the POPF. The law further provides that the State would be in compliance with this requirement provided the State makes a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution beginning in FY 2012, and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter. Full funding of the annual actuarially required employer contribution for the State-administered Defined Benefits Retirement System is approximately $3.91 billion. The Governor proposes total combined appropriations in FY 2014 of $1.676 billion as the third annual payment under P.L.2010, c.1, representing 3/7 of the actuarially required contribution based on the June 30, 2012 actuarial valuation. Of that total, $570.017 million is recommended for appropriation in FY 2014 for State enrollees in PERS, PFRS, SPRS, TPAF, and JRS.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Alternate Benefit Program-Employer Contributions	**$1,335**	**$1,420**	**$ 85**	**6.4%**	**D-437**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA), or the College Retirement Equities Fund (CREF). The minimum contribution by employees is five percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of eight percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty).

The FY 2014 Governor's Budget recommends an appropriation of $1.420 million for active State employees, due to membership growth and wage adjustments that are consistent with the assumption of 4 percent salary growth above a revised FY 2013 base that is slightly higher than originally assumed.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Defined Contribution Retirement Program	**$902**	**$1,280**	**$ 378**	**41.9%**	**D-437**

P.L.2007, c.92 established a Defined Contribution Retirement Program (DCRP) for elected and certain appointed officials and for certain other public employees. State and local government employers contribute three percent of the employee's base salary; group life insurance and the option for disability benefits coverage are provided to participants. Participants contribute 5.5 percent of their salary. P.L.2010, c.1 expanded the participation in the DCRP to include new public employees and teachers who do not meet the required number of work hours necessary to participate in PERS and TPAF, and new PFRS (Corrections Officers) and SPRS (State Police Officers) employees whose salary exceeds the annual maximum wage contribution base for Social Security, which is $113,700 for calendar year 2013. The FY 2014 Governor's Budget recommends an appropriation of $1.280 million to provide full funding of the calculated State contribution, including the projected increase in enrollment in the DCRP from the enactment of P.L.2010, c.1. Membership in the DCRP is estimated to grow by 32 percent in FY 2014.

The recommendation is consistent with the Division of Pensions and Benefits' assumption of a 35 percent growth in costs above a revised FY 2013 base that is higher than originally assumed.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Pension Adjustment Program	**$1,098**	**$988**	**($ 110)**	**(10.0%)**	**D-438**

The Pension Adjustment Program appropriation provides funding for cost-of-living adjustments (COLAs) in the benefits paid to retirees of the three closed State-administered defined benefit pension retirement systems: the Consolidated Police and Firemen Pension Fund (CPFPF), the

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Prison Officers Pension Fund (POPF), and the Central Pension Fund. The remaining State-administered defined benefit retirement systems' COLAs are paid as part of the liability of each system. Under the Pension Adjustment Fund, there is a fixed adjustment for those individuals who retired prior to January 1, 1955, and, for retirees after that date, the adjustment is 60 percent of the change in the consumer price index. Retirees become eligible for the adjustment 24 months after retirement. This program is funded on a pay-as-you-go basis through annual employer contributions. COLA increases were suspended in FY 2011 pursuant to P.L.2011, c.78. The proposed reduction is due to fewer living retirees receiving the pension adjustment.

Total Pensions-DSS	**$343,293**	**$573,705**	**$230,412**	**67.1%**	**---**

This total includes the proposed appropriations for the PERS, PFRS, SPRS, TPAF, JRS, the Alternate Benefit Program, the Defined Contribution Program, and the Pension Adjustment Act.

<u>Non-Contributory Insurance</u>

Public Employees' Retirement System	**$27,515 (S) $5,200**	**$29,302**	**($3,413)**	**(10.4%)**	**D-437**
Police and Firemen's Retirement System	**$7,551**	**$6,593**	**($ 958)**	**(12.7%)**	**D-437**
Alternate Benefit Program	**$184**	**$209**	**$ 25**	**13.6%**	**D-437**
Defined Contribution Retirement Program	**$310**	**$349**	**$ 39**	**12.6%**	**D-437**
State Police Retirement System	**$1,763**	**$1,858**	**$ 95**	**5.4%**	**D-437**
Judicial Retirement System	**$919**	**$889**	**($ 30)**	**(3.3%)**	**D-438**
Teachers' Pension and Annuity Fund	**$57**	**$56**	**($ 1)**	**(1.8%)**	**D-438**
Total Non-Contributory Insurance-DSS	**$43,499**	**$39,256**	**($4,243)**	**2.5%**	**---**

Non-contributory insurance (NCI) accounts fund the group life insurance plan for enrolled members, also known as the death benefit. NCI comprises part of the State's annual required contributions to the State-administered retirement systems, but is paid in full each year. NCI

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

group insurance is a group insurance plan in which the insured members pay no portion of the premium for their insurance. The group policyholder pays the entire premium. The enrollment of group members is automatic and all eligible members are covered.

This proposed FY 2014 reduction reflects the pay-as-you go cost to fund NCI claims in FY 2014. The Governor's Budget also requests a FY 2013 supplemental appropriation to pay for higher than expected claims in FY 2012 and higher anticipated claims in FY 2013. At the end of FY 2012, the Administration reverted $11.9 million in NCI appropriations in anticipation of lower FY 2012 claims costs. However, the Administration now indicates that the year-end reconciliation actually resulted in a shortfall of FY 2012 payments to claims, thereby necessitating a supplemental appropriation of $5.2 million in the current year.

Health Benefits

The appropriations for State Employees' Health Benefits include State Health Benefit Program medical, prescription drug, and dental coverage and pertain to active State employees. For plan year 2013, premium rate increases for FY 2014 for active employees recommended by the actuary are 9.6 percent for medical and prescription drug coverage, respectively. Recommended premium rates for dental coverage reflect an increase of 3 percent. Member premium sharing through payroll deductions is projected to increase by $48.4 million.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	**$693,002 (S) $19,000**	**$712,460**	**$ 458**	**.1%**	**D-438**
State Employees' Prescription Drug Program	**$200,988**	**$185,136**	**($15,852)**	**(7.9%)**	**D-438**
State Employees' Dental Program-Shared Cost	**$22,992**	**$24,462**	**$ 1,470**	**6.4%**	**D-438**
State Employees' Vision Care Program	**$1,000**	**$1,000**	**0**	**—**	**D-438**
Total State Health Benefits-Active-DSS	**$936,982**	**$923,058**	**($13,924)**	**(1.5%)**	**D-438**

The FY 2014 Governor's budget recommends a total of $923.058 million for active State employees' medical, prescription drug, and dental coverage, $13.924 million less than FY 2013 adjusted appropriations and about $11.9 million lower than revised FY 2013 cost projections by the Division of Pensions and Benefits for these accounts. Considering these revised cost estimates, rate increases developed by actuarial consultants and other assumptions made by the Division of Pensions and Benefits, the OLS concludes that FY 2014 projected costs may exceed the recommended appropriations by approximately $50 million. The budget indicates the need

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

for a supplemental appropriation in the amount of $19 million for State employees' health benefits. This is consistent with the Division of Pensions and Benefits revised cost estimates for the current year.

Post Retirement Medical Benefits

The Post Retirement Medical accounts fund benefits for State employees who retire after 25 years of service as members of various retirement systems. Employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. Post Retirement Medical Benefits (PRM) are funded on a pay-as-you–go basis. For plan year 2013, the overall medical and prescription drug average renewal increase recommended by the actuary for FY 2014 for retirees' health benefits is 8.3 percent. The components of this average increase are 9 percent and 5 percent for medical coverage for early and Medicare retirees, respectively, and 9 percent for prescription drug coverage. Premiums for dental coverage are recommended to remain the same.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Post Retirement Medical	**$299,331 (S) $9,000**	**$308,392**	**$ 61**	**.0%**	**D-437**

Division of Pensions and Benefits budget documents that detail revised FY 2013 expenditure projections combine the State employee (DSS) and higher education employee (GIA) components. Thus, it is not possible to distinguish PRM changes for State retirees from those of higher education retirees. In the aggregate, the Division of Pensions and Benefits mid-year review indicates that total costs for FY 2013 PERS DSS and GIA PRM are projected to be $346.7 million, approximately $7.4 million below the FY 2013 adjusted appropriation. Thus, it is not clear why the Administration anticipates the need for a $9 million current year supplemental appropriation in this account.

The FY 2014 Governor's Budget proposes a combined PERS PRM appropriation of $360.4 million, an increase of 3.95 percent over the revised FY 2013 cost level, but falling short of the average rate increases recommended by the actuary by 4.35 percent, or approximately $15 million. Division of Pensions and Benefit budget documents indicate that retiree net prescription drug costs are budgeted to decline by a combined $12.8 million, which is not consistent with the renewal rate recommended by the actuary.

Under the Administration's assumptions, $308.4 million is allocated to State retirees and the balance to higher education retirees (Grants-In-Aid). Division of Pensions and Benefits budgetary assumptions, in addition to the rate increase previously referred to, are that the number of PERS retirees will increase by 5 percent and that 3 percent of early retirees and 2 percent of Medicare retirees will be enrolled in new lower cost plans in 2014.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund-Post Retirement Medical-State	**$3,600**	**$3,655**	**$ 55**	**1.5%**	**D-438**

The appropriation presented above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs, those attributable to members that retired from State service. The Division of Pensions and Benefits revised estimates for FY 2013 indicate that total expenditures for TPAF are projected to be $745.1 million, approximately $22.7 million higher than the FY 2013 adjusted appropriation. According to the actuary, the current year increase is primarily "due to the increase in dependents as a result of the Federal Health Care Reform which mandates coverage of adult children through age 26, the depletion of the Early Retiree Reinsurance Program credit, and spend down in the Claim Stabilization Reserve Fund."

The FY 2014 Governor's Budget proposes an appropriation of $777.9 million, an increase of 4.4 percent over the revised FY 2013 expenditure level, falling short of the combined rate increases recommended by the actuary by 3.9 percent, or $29 million. Budget information from the Division of Pensions and Benefits indicates that retiree net prescription drug costs are budgeted to increase by 1.3 percent which is not consistent with the renewal rate increases recommended by the actuary.

Other Pension Systems-Post Retirement-Medical	**$103,350 (S) $7,500**	**$111,039**	**$ 189**	**.2%**	**D-438**

In the aggregate, the Division of Pensions and Benefits revised FY 2013 cost estimate indicates that total expenditures for FY 2013 Other Pension Systems-Post Retirement Medical DSS and GIA are projected to be $142.074 million, $106.254 million for DSS and $35.82 million for GIA. This is approximately $7 million above the combined DSS and GIA original appropriation, $2.9 million in DSS and $4.1 million in GIA, supporting the need for projected supplemental funding by the budget.

The FY 2014 Governor's Budget proposes an appropriation of $111.039 million to fund Other Systems-Post Retirement Medical DSS, an increase of 4.5 percent over the revised expenditure level, falling short of the rate increase recommended by the actuary by 3.8 percent, or $4 million. Division of Pensions and Benefit budget documents indicate that retiree net prescription drug costs are budgeted to decline by a combined $5.6 million, which is not consistent with the renewal rate recommended by the actuary.

Total Post Retirement Medical-DSS	**$422,781**	**$423,086**	**$ 305**	**.1%**	**---**

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Pension Obligation Bonds					
Debt Service on Pension Obligation Bonds	**$115,698**	**$124,878**	**$ 9,180**	**7.9%**	**D-438**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. Of the $2.5 billion in pension obligation bonds issued in 1997, $2.433 billion in bonds remain outstanding with a final maturity date of February 15, 2029. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is recommended at $316.741 million in FY 2014, consistent with the schedule of debt service payments. Funding for debt service on these bonds is appropriated in three sections of the budget: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $132.083 million: $124.878 million in Direct State Services and $7.205 million in Grants-In-Aid (higher education). The Department of Education includes an appropriation for debt service on pension obligation bonds of $167.931 million and the remaining $16.727 million is budgeted in the Department of the Treasury.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Employer Taxes					
Social Security Tax-State	**$308,834 (S) $60,971**	**$375,700**	**$ 5,895**	**1.6%**	**D-438**

The Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for State employees, not including employees of institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay Federal Insurance Contributions Act (FICA), Old Age, Survivors, and Disability Insurance (OASDI), and Medicare taxes. The current employer rate for Social Security is 6.2 percent of taxable wages and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security for calendar year 2013 is $113,700, 3.3 percent higher than calendar year 2012.

This recommended increase reflects negotiated increases in salaries and wages and a small increase in the State workforce. The OLS notes that the projected FY 2013 supplemental appropriation corresponds to reductions in this funding initiated by the Legislature during the FY 2013 appropriations process. The Legislature expected that by reallocating unexpended balances, which often are larger than assumed, the Executive could make up for $60 million in reductions. The budget indicates that the Executive prefers to replace this funding by reducing surplus.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	**$11,341**	**$11,281**	**($ 60)**	**(.5%)**	**D-438**

All eligible State employees are included in the State Temporary Disability Insurance plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or worker's compensation. Employees and employers contribute 0.5 percent of compensation up to the State taxable wage base. The State taxable wage base in calendar year 2013 is $30,900. The Division of Pensions and Benefits estimates that the TDI employer rate is expected to remain at 0.5 percent of taxable wages in FY 2014, and taxable wages for Direct State Services are assumed to increase by one percent.

The FY 2014 Governor's Budget recommends an appropriation of $11.281 million in FY 2014, consistent with the assumption of a one percent taxable wage growth above a revised FY 2013 base that is slightly lower than originally assumed.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$7,856**	**$6,505**	**($1,351)**	**(17.2%)**	**D-438**

The recommended appropriation for Unemployment Insurance Liability is the estimated amount the State is required to pay in unemployment claims for former State employees if the revenue from employee contributions proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis. Employees contribute 0.425 percent of salary, up to the unemployment wage base of $30,900 in calendar year 2013. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. Taxable wages for Direct State Services are assumed to increase by one percent in FY 2014.

The FY 2014 Governor's Budget recommends an appropriation of $6.505 million, $1.351 million, or 17.2 percent lower than the FY 2013 adjusted appropriation due mainly to the end of the extended benefits program as of July 2012 and the resulting reduction in extended benefit charges. The Division of Pensions and Benefits indicates that regular unemployment charges are also expected to decline between FY 2013 and FY 2014 but are still expected to remain higher than normal.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Total Employer Taxes – DSS	**$389,002**	**$393,486**	**$ 4,484**	**1.2%**	

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Grants-In-Aid					
Employee Benefits					
Employee Benefits Total Grants-In-Aid	**$881,255**	**$944,732**	**$63,477**	**7.2%**	**D-438**

The same five main categories of Direct State Service Employee Benefit appropriations reoccur as Grants-in-Aid: Pensions, Health Benefits, Post Retirement Medical Benefits; employer taxes and pension bond debt service. Grants-In-Aid appropriations fund benefits and other costs for employees of State higher educational institutions.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Pensions					
Public Employees' Retirement System	**$22,032**	**$38,387**	**$16,355**	**74.2%**	**D-438**
Police and Firemen's Retirement System	**$4,804**	**$6,575**	**$ 1,771**	**36.9%**	**D-438**
Teachers' Pension and Annuity Fund	**$367**	**$530**	**$ 163**	**44.4%**	**D-438**
Total, Defined Benefit Retirement Systems-GIA	**$27,203**	**$45,492**	**$18,289**	**67.2%**	**----**

P.L.2010, c.1 requires the State, beginning in FY 2012, to make in full the annual employer's contribution, as computed by the actuaries, to the PERS, TPAF, PFRS, SPRS, JRS, CPFPF, and the POPF. The law further provides that the State would be in compliance with this requirement provided the State makes a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution beginning in FY 2012, and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter. Full funding of the annual actuarially required employer contribution for the State-administered Defined Benefits Retirement System is approximately $3.91 billion in FY 2014. The Governor proposes total combined appropriations in FY 2014 of $1.676 billion as the third annual payment under P.L.2010, c.1, representing 3/7 of the actuarially required contribution based on the June 30, 2012 actuarial valuation. Of that total, $45.492 million is recommended for appropriation in FY 2014 for enrollees of institutions of higher education in PERS, PFRS, and TPAF.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Alternate Benefit Program Employer Contributions	**$132,425 (S) $3,253**	**$139,748**	**$ 4,070**	**3.0%**	**D-438**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA), or the College Retirement Equities Fund (CREF). The minimum contribution by employees is five percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of eight percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty). The FY 2014 Governor's Budget recommends an appropriation of $139.748 million in FY 2014 for active employees of institutions of higher education. This increase is due to membership growth and wage adjustments that are consistent with the assumption of 3 percent salary growth above a revised FY 2013 base that is higher than originally assumed by $3.253 million. Hence, a FY 2013 supplemental appropriation is recommended.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Total Pensions-GIA	**$162,881**	**$185,240**	**$22,359**	**13.7%**	
Non-Contributory Insurance					
Public Employees' Retirement System	**$2,836**	**$2,920**	**$ 84**	**3.0%**	**D-438**
Police and Firemen's Retirement System	**$336**	**$284**	**($ 52)**	**(15.5%)**	**D-438**
Alternate Benefit Program	**$18,806**	**$20,909**	**$ 2,103**	**11.2%**	**D-438**
Teachers' Pension and Annuity Fund	**$10**	**$7**	**($ 3)**	**(30.0%)**	**D-439**
Total Non-Contributory Insurance-GIA	**$21,988**	**$24,120**	**$ 2,132**	**9.7%**	**---**

Non-contributory insurance (NCI) appropriations fund the group life insurance plan for enrolled members, also known as the death benefit. NCI comprises part of the State's annual required contributions, but is paid in full each year. Non-contributory group insurance is a group insurance plan in which the insured members pay no portion of the premium for their

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

insurance. The group policyholder pays the entire premium. The enrollment of group members is automatic and all eligible members are covered. This proposed FY 2014 reduction reflects the pay-as-you go cost to fund NCI claims in FY 2014.

Health Benefits

The appropriations for State Employees' Health Benefits include State Health Benefits Program medical costs, prescription drugs, and dental coverage and pertain to active employees of institutions of higher education. For plan year 2013, premium rate increases for FY 2014 for active employees recommended by the actuary are 9.6 percent for medical and prescription drug coverage, respectively. Recommended premium rates for dental coverage are an increase of 3 percent. Member premium sharing through payroll deductions is projected to increase by $30.5 million.

State Employees' Health Benefits	**$343,123**	**$362,500**	**$19,377**	**5.6%**	**D-439**
State Employees' Prescription Drug Program	**$96,170**	**$98,413**	**$ 2,243**	**2.3%**	**D-439**
State Employees' Dental Program-Shared Cost	**$10,739**	**$11,771**	**$ 1,032**	**9.6%**	**D-439**
Total State Health Benefits-Active-GIA	**$450,032**	**$472,684**	**$22,652**	**5.0%**	**---**

The FY 2014 Governor's budget recommends a total of $472.7 million for active higher education employees' medical, prescription drug, and dental coverage, about $22.6 million above the FY 2013 adjusted appropriation and about $16.5 million above revised FY 2013 cost projections by the Division of Pensions and Benefits. Considering these revised cost estimates, rate increases developed by actuarial consultants and other assumptions made by the Division of Pensions and Benefits, the OLS concludes that FY 2014 recommendation may be $3.9 million more than necessary.

Post Retirement Medical Benefits

The Post Retirement Medical appropriations fund benefits for State employees who retire after 25 years of service as members of various retirement systems. Employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. Post Retirement Medical Benefits (PRM) are funded on a pay-as-you–go basis. For plan year 2013, the overall medical and prescription drug average renewal increase recommended by the actuary for FY 2014 for

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

retirees' health benefits is 8.3 percent. The components of this average increase are 9 percent and 5 percent for medical coverage for early and Medicare retirees, respectively, and 9 percent for prescription drug coverage. Premiums for dental coverage are recommended to remain the same.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Post Retirement Medical	**$45,731**	**$52,051**	**$ 6,320**	**13.8%**	**D-438**

Division of Pensions and Benefits budget documents that detail revised FY 2013 expenditure projections combine the State employee (DSS) and higher education employee (GIA) components. Thus, it is not possible to distinguish PRM changes for State retirees from those of higher education retirees. In the aggregate, the Division of Pensions and Benefits mid-year review indicates that total costs for FY 2013 PERS DSS and GIA PRM are projected to be $346.7 million, approximately $7.4 million below the FY 2013 adjusted appropriation.

The FY 2014 Governor's Budget proposes a combined appropriation of $360.4 million, an increase of 3.95 percent over the revised FY 2013 cost level, but falling short of the average rate increases recommended by the actuary by 4.35 percent, or approximately $15 million. Division of Pensions and Benefit budget documents indicate that retiree net prescription drug costs are budgeted to decline by a combined $12.8 million, which is not consistent with the renewal rate recommended by the actuary.

Under the Administration's assumptions, $308.4 million is allocated to State retirees and $52.1 million to higher education retirees (Grants-In-Aid). Division of Pensions and Benefits budgetary assumptions, in addition to the rate increase of 8.3 percent previously referred to, are that the number of PERS retirees will increase by 5 percent and that 3 percent of early retirees and 2 percent of Medicare retirees will be enrolled in new lower cost plans in 2014.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund-Post Retirement Medical	**$5,000**	**$5,373**	**$ 373**	**7.5%**	**D-439**

The appropriation presented above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs, those attributable to members that retired from State service. The Division of Pensions and Benefits revised estimates for FY 2013 indicate that total expenditures for TPAF are projected to be $745.1 million, approximately $22.7 million higher the FY 2013 adjusted appropriation. According to the actuary, the current year increase is primarily "due to the increase in dependents as a result of the Federal Health Care Reform which mandates coverage of adult children through age 26, the depletion of the Early Retiree Reinsurance Program credit, and spend down in the Claim Stabilization Reserve Fund."

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

The FY 2014 Governor's Budget proposes an appropriation of $777.9 million, an increase of 4.4 percent over the revised FY 2013 expenditure level, falling short of the combined rate increases recommended by the actuary by 3.9 percent, or $29 million. Budget information from the Division of Pensions and Benefits indicates that retiree net prescription drug costs are budgeted to increase by 1.3 percent which is not consistent with the renewal rate increases recommended by the actuary. The OLS is thus uncertain as to the Administration's basis for budgeting a 7.5 percent increase in total PRM costs for these TPAF retirees. Proposed funding for this particular TPAF PRM account is more consistent with the actuarial rate renewal recommendations.

Other Pension Systems-Post Retirement Medical	**$31,725**	**$38,457**	**$ 6,732**	**21.2%**	**D-439**

In the aggregate, the Division of Pensions and Benefits revised FY 2013 cost estimate indicates that total expenditures for FY 2013 Other Pension Systems-Post Retirement Medical DSS and GIA are projected to be $142.074 million, $106.254 million for DSS and $35.82 million for GIA. This is approximately $7 million above the combined DSS and GIA original appropriations, $2.9 million above the DSS adjusted appropriation and $4.1 million above the GIA adjusted appropriation. The Administration has requested a supplemental appropriation in the amount of $7.5 million in the DSS account.

The FY 2014 Governor's Budget proposes an appropriation of $38.457 million to fund Other Systems-Post Retirement Medical GIA, an increase of 7.3 percent over the revised FY 2013 expenditure level, falling short of the rate increase recommended by the actuary by 1 percent, or $336,000, but more consistent with the actuarial rate renewal recommendations than is the recommended DSS appropriation.

Total Post Retirement Medical-GIA	**$82,456**	**$95,881**	**$13,425**	**16.3%**	**---**

<u>**Pension Obligation Bonds**</u>

Debt Service on Pension Obligation Bonds	**$6,675**	**$7,205**	**$ 530**	**7.9%**	**D-439**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. Of the $2.5 billion in pension obligation bonds issued in 1997, $2.433 billion in bonds remain outstanding with a final maturity date of February 15, 2029. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is recommended at $316.741 million in FY 2014, consistent with the schedule of debt service payments. Funding for debt service on these bonds is budgeted in three sections of the budget:

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $132.083 million comprised of $124.878 million in Direct State Services and $7.205 million in Grants-In-Aid (higher education). The Department of Education includes an appropriation for debt service on pension obligation bonds of $167.931 million and the remaining $16.727 million is budgeted in the Department of the Treasury.

Employer Taxes

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Social Security Tax - State	**$144,827**	**$147,983**	**$ 3,156**	**2.2%**	**D-439**

The Social Security Tax-State appropriation provides funding for the employers' share of Social Security contributions for employees of institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the employers' liability to pay Federal Insurance Contributions Act (FICA), Old Age, Survivors, and Disability Insurance (OASDI), and Medicare taxes. The current employer rate for Social Security is 6.2 percent of taxable wages and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security for calendar year 2013 is $113,700, 3.3 percent higher than calendar year 2012.

This recommended increase reflects negotiated increases in salaries and wages. Any assumptions concerning changes in the size of the workforce are unknown

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	**$6,570**	**$6,769**	**$ 199**	**3.0%**	**D-439**

The State Temporary Disability Insurance plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or worker's compensation. Employees and employers contribute 0.5 percent of compensation up to the State taxable wage base. The State taxable wage base in calendar year in 2013 is $30,900. The Division of Pensions and Benefits estimates that the TDI employer rate is expected to remain at 0.5 percent of taxable wages in FY 2014, and taxable wages are assumed to increase by four percent. The FY 2014 Governor's Budget recommends an appropriation of $6.769 million, consistent with the assumption of a 4 percent taxable wage growth above a revised FY 2013 base that is slightly lower than originally assumed.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$5,826**	**$4,850**	**($ 976)**	**(16.8%)**	**D-439**

The recommended appropriation for Unemployment Insurance Liability is the estimated amount the State is required to pay in unemployment claims for former employees if the revenue from employee contributions proves to be insufficient. Unlike private industry, the

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis. Employees contribute 0.425 percent of salary, up to the unemployment wage base of $30,900 in calendar year 2013. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. Taxable wages are assumed to increase by four percent in FY 2014.

The FY 2014 Governor's Budget recommends an appropriation of $4.850 million, $976,000, or 16.8 percent lower than the FY 2013 adjusted appropriation. This reduction is due mainly to the end of the extended benefits program as of July 2012 and the resulting reduction in extended benefit charges. The Division of Pensions and Benefits indicates that regular unemployment charges are expected to decline between FY 2013 and FY 2014 but are still expected to remain higher than normal.

Total Employer Taxes-GIA	**$157,223**	**$159,602**	**$ 2,379**	**1.5%**	

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

Disasters and Emergencies	**(S)$40,000**	**$0**	**($40,000)**	**(100.0%)**	**D-440**

This projected FY 2013 supplemental appropriation comprises contingency funding for Super Storm Sandy-related expenses "to ensure that expenses not reimbursed by the federal government can be met without reducing resources for other key priorities." According to the Governor's Budget Summary, New Jersey has been approved for $1.83 billion in first phase funding through the federal Department of Housing and Urban Development under the $60.4 billion federal Disaster Relief Appropriations Act of 2013.

Federal Sequester Contingency	**$0**	**$3,000**	**$ 3,000**	**—**	**D-440**

The FY 2014 Governor's Budget proposes an increase of $3 million to provide funding for the continued delivery of services and programs necessary to protect the health and safety of the residents of the State of New Jersey in the event that the federal budget process results in sequestration, leading to reduced federal funds for critical programs including, but not limited to, education, public health and safety, and environmental programs. The impact of sequestration on federal funds received by New Jersey State and local agencies is unclear at this time.

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Interest on Short Term Notes	**$6,000 (S)6,600**	**6,000**	**($6,600)**	**(52.4%)**	**D-440**

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. 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. The assumptions of short-term borrowing needs and borrowing costs that are factored into the FY 2014 recommendation are unknown.

SALARY INCREASES

Direct State Services

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	**$12,500**	**$67,390**	**$54,890**	**439.1%**	**D-441**

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, and then allocated to individual departments/agencies during the fiscal year. Salary increases could include employee increments, cost-of living adjustments (COLAs), and bonuses according to contractual agreements. The FY 2014 Governor's Budget recommendation for Salary Increases and Other Benefits is $67.390 million, intended to fund salary increments for eligible employees in the executive, legislative, and judicial branches of government in New Jersey. The amount budgeted for COLAs and increments in FY 2014 is $44.093 million for the Executive Branch, $10.438 million for the Judicial Branch and $359,000 for the Legislative Branch. Contractual salary increases have been negotiated in four ratified contracts including the Communication Workers of America, AFL-CIO (CWA); the International Federation of Professional and Technical Engineers (IFPTE); the American Federation of State, County, and Municipal Employees and include the following increases: 0 percent in FY 2012, 0 percent in FY 2013, one percent in FY 2014, and 1.75 percent in FY 2015. The total displayed also includes $12.5 million in both FY 2013 and FY 2014 for unused accumulated sick leave.

Significant Language Changes

Federal Sequester Contingency

Addition

2013 Handbook: p. N.A.
2014 Budget: p. D-441

Of the amount hereinabove appropriated for Federal Sequester Contingency, in the event the federal budget process results in a sequestration or withholding of federal funds in a manner that adversely affects the delivery of services or the continuation of programs necessary to the health and safety of the residents of the State of New Jersey, such amounts as the Director of the Division of Budget and Accounting shall determine to be necessary to protect public welfare and to provide a level of continuity in the delivery of required services may be transferred to the applicable direct state services, grants-in-aid or State aid line item for the affected program or programs.

Explanation

The FY 2014 Governor's Budget proposes a new appropriation of $3 million to provide funding for the continued delivery of services and programs necessary to protect the health and safety of the residents of the State of New Jersey in the event that the federal budget process results in sequestration, leading to reduced federal funds for critical programs including, but not limited to, education, public health and safety, and environmental programs.

State Appropriations Limitation and Funding For Contractual Salary Increases

Revision

2013 Handbook: p. F-8
2014 Budget: p. E-6

For the purposes of the "State Appropriations Limitation Act," P.L.1990, c.94 (C.52:9H-24 et seq.), the amounts appropriated to the developmental centers in the Department of Human Services due to opportunities for increased recoveries, amounts carried forward in the State Employees' Health Benefits accounts, and amounts representing balances deemed available in the State Health Benefits Fund shall be deemed a "Base Year Appropriation~~."~~" and, notwithstanding the provisions of P.L. 1990, c. 94 or any other law or regulation to the contrary, in recognition of the historically unprecedented pension payments being made and required to be made by the State, and consistent with the budget cap methodology applicable to New Jersey municipalities, for purposes of calculating the maximum annual appropriation for direct state services, the term "appropriations" shall not include amounts appropriated for State contributions to the pension systems. If funding included in this Act for Salary Increases and Other Benefits – Executive Branch is less than $44,093,000, there is appropriated sufficient funding to total $44,093,000. For the purposes of the "State Appropriations Limitation Act," P.L.1990, c.94 (C.52:9H-24 et seq.), any funding provided less than $44,093,000 shall be deemed a "Base Year Appropriation".

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

This proposed language provides the Administration with greater budget flexibility with respect to the limitation on annual budget growth, also known as the State budget cap. The language exempts the Direct State Services portion of the State's pension payments from the maximum annual appropriations under the State's appropriation limit calculation. The effect of this is to allow more growth in direct state services appropriations in the next budget year. If the pension payments are exempted from the appropriations limit, then funding mandatory growth in those payments, at a rate of increase significantly greater than that likely to be allowable by the cap, will not result in reductions to non pension-related direct state service appropriations.

With regard to the portion of the proposed language that appropriates funds for Salary Increases and Other Benefits, the Administration is requesting that the Legislature approve a supplemental appropriation in advance in the event that the FY 2014 budget as enacted provides less than $44.093 million for Executive Branch contractual salary increases. The language also provides State budget cap flexibility if that amount is not appropriated in full by allowing an upward adjustment in allowable FY 2015 appropriations equal to the difference between $44.093 million and the amount actually appropriated.

Background Paper: The Effect of the Affordable Care Act on the State Health Benefits Program and the School Employees' Health Benefits Program

This background report reviews the effect of the provisions under the federal "Patient Protection and Affordable Care Act", Pub.L.111-148, as amended by the "Health Care and Education Reconciliation Act of 2010" Pub.L.111-152, (ACA) on the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). The implementation of the ACA has resulted in both savings and costs to the SHBP/SEHBP. The State received significant federal funding for the Early Retiree Reinsurance Program and the Employer Group Waiver Plan Program for prescription drugs. Cost increases resulted from the prohibition of lifetime and annual limits, the extensions on dependent coverage, and ensuring the quality of care. Another salient impact of the ACA on the SHBP/SEHBP is the loss of grandfathered status as a self-insured nonfederal governmental health plan, resulting in some higher costs for preventive care, patient protections, and emergency services, as described later in this report. Potential savings may also be achieved if health insurance coverage for employees' dependent children is shifted to the Children's Health Insurance Program (CHIP).

Self-Funded Nonfederal Governmental Group Health Plans

Under the ACA, the term, "group health plans" refers to both insured and self-funded group health plans. The SHBP and the SEHBP are classified as self-funded nonfederal governmental group health plans. Self-funded nonfederal governmental group health plans are governmental health plans administered or sponsored by State or local public employers.

Prior to the enactment of the ACA, sponsors or administrators of self-funded nonfederal governmental group health plans were able to apply for plan exemptions from certain provisions of title XXVII of the Public Health Services (PHS) Act that other group health plans and health insurance issuers could not, including: (1) limitations on preexisting condition exclusions; (2) requirements for special enrollment periods (waiting periods)[1]; (3) prohibitions against discriminating against individual participants and beneficiaries based on health status[2] (not including provisions added by the Genetic Information Nondiscrimination Act of 2008); (4) standards relating to benefits for newborns and mothers under the Newborns' and Mothers' Health Protection Act of 1996; (5) parity in the application of annual dollar and visit limits to mental health and substance abuse under the Mental Health Parity and Addiction Act of 2008 (HIPAA required that visit and dollar limits on mental health benefits not be lower than those of medical or surgical benefits;[3]) (6) required coverage from reconstructive surgery following

[1] According to the New Jersey Division of Pensions and Benefits, "portability" in the Health Insurance Portability and Accountability Act (HIPAA) rules provide that if a person was previously covered under another group health plan, that coverage period will be credited toward any pre-existing condition waiting period for the new plan. This includes any prior group plan coverage that was in effect for 90 days prior to the individual's effective date under the new plan.

[2] Section 2705 of the ACA prohibits discrimination against individual participants and beneficiaries based on health status. Group health plans and health insurance issuers offering group or individual health insurance coverage are not allowed to establish rules for eligibility for enrollment based on any of the following health status related factors: physical or mental medical condition, claims experience, receipt of health care, medical history, genetic information, evidence of insurability, disability, any other health status-related factor determined appropriate by the Secretary.

[3] Under NJDIRECT, non biologically-based mental or nervous conditions are covered in-network at a rate of 100 percent coverage up to 25 days per calendar year for inpatient services. In-network, inpatient

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mastectomies under the Women's Health and Cancer Rights Act of 1998; and (7) coverage of dependent students on a medically necessary leave of absence under Michelle's Law of 2008.[4] These exemptions are known as the HIPAA opt-out provisions of the PHS Act for self-funded nonfederal governmental health plans.

The ACA amended the HIPAA opt-out provisions to prohibit self-funded nonfederal governmental health plans from electing three of the seven opt-out provisions: limitations on preexisting condition exclusion periods, requirements for special enrollment periods (waiting periods), and prohibitions against discriminating against individual participants and beneficiaries based on health status. The other four opt-out provisions may still be elected. The ACA also prohibits all plans from newly establishing annual or lifetime limits. According to the New Jersey Division of Pensions and Benefits, the SHBP/SEHBP has been providing coverage for all of the opt out provisions since the 1980s and 1990s, with the exception of mental health parity as it relates to visit limits and annual and lifetime dollar limits through plan design, State Health Benefits Commission action, and legislation.

Grandfathered Status

Under the ACA, health plans in existence on March 23, 2010 are permitted to maintain their existing coverage and are not required to comply with certain ACA reform requirements as long as they maintain certain pre-ACA benefit, cost sharing, and contribution levels. In other words, these health plans were "grandfathered" and were not immediately required to implement ACA reforms. However, the ACA provides that if a plan is revised to eliminate all or substantially all benefits to diagnose or treat a condition, then that plan loses its "grandfathered" status.

The federal rules and regulations clarify this provision by explaining that "if, for example a plan eliminates all the benefits for cystic fibrosis, the plan ceases to be a grandfathered plan." Likewise, the federal rules and regulations explain that "if, for example, a plan provides benefits for a particular mental health condition, the treatment for which is a combination of counseling and prescription drugs, and subsequently eliminates benefits for counseling, the plan is treated as having eliminated all or substantially all benefits for that mental health condition." With regard to cost sharing requirements or copayments for the provision of covered health benefits, federal rules and regulations state that "any increase in a percentage cost-sharing requirement (such as coinsurance) causes a plan or health insurance coverage to cease to be a grandfathered plan." In addition, any increase in a fixed-amount cost sharing requirement other than a copayment, such as a deductible or out-of-pocket limit, causes

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days beyond the 25 day limit are covered at 90 percent. Out-of-network inpatient services are covered at 50 percent, after deductible, for up to 50 days. Out-of-network outpatient visits are covered at 70/80 percent of reasonable and customary charges.

[4] Sponsors of self-funded nonfederal governmental health plans were not permitted to elect to opt-out of the requirements pertaining to the certification and disclosure of an individual's creditable coverage under the plan, prohibiting discrimination based on genetic information and apply to group health plans after May 21, 2009, and the requirements related to the transmission, privacy, and security of certain health information. The opt-out election was authorized under section 2721(b)(2) of the PHS Act, but is now codified under section 2722(a) of the PHS Act. (U.S. Department of Health and Human Services). The applicability of section 2722(a)(2) is limited to and applies only to nonfederal governmental health plans and applies only to the portion of the plan that is self-funded.

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a group health plan or health insurance coverage to cease to be grandfathered health plan, if the total percentage increase exceeds the maximum allowable percentage increase.[5] With regard to contribution levels, federal rules and regulations provide that any plan that reduces the employer contribution rate for coverage under a group health plan or group health insurance coverage by more than 5 percentage points below what its contribution rate was on March 23, 2010, ceases to be a grandfathered plan.

In addition, under the ACA, changes to annual limits on coverage will cause a plan to lose its grandfathered status regarding the prohibition on lifetime limits. With regard to prohibitions on annual limits and rules regarding restricted annual limits before plan years beginning on January 1, 2014, there are three corollaries: (1) prohibition on adding an annual limit, a group health plan or group health insurance coverage that did not impose an overall lifetime or annual limit on the dollar value of all benefits on or before March 23, 2010 loses its grandfathered status if the group health plan or group health insurance coverage chooses to impose an overall annual limit after March 23, 2010; (2) prohibition on substituting an annual limit, a group health plan or group health insurance coverage that imposed an overall lifetime limit but no annual limit on or before March 23, 2010 loses its grandfathered status if the group health plan or group health insurance coverage chooses to impose an overall annual limit at a dollar value that is lower than what the dollar value of the overall lifetime limit was as of March 23, 2010; (3) decreasing an annual limit, a group health plan or health insurance coverage that imposed an overall annual limit on the dollar value of all benefits on or before March 23, 2010 loses its grandfathered status if the group health plan or group health insurance coverage reduces the dollar value of the annual limit that was in place as of March 23, 2010.

[5] The maximum allowable percentage increase is defined as the percentage increase in the medical inflation rate plus 15 percentage points.

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Table 1 lists the special HIPAA exemptions for self-funded nonfederal governmental health plans and the application of those exemptions by the SHBP/SEHBP. 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.

Table 1

Special Exemptions for Self-funded Nonfederal Governmental Group Health Plans		
HIPAA Exemptions Prior to Enactment of the ACA	**HIPAA Exemptions After the Enactment of the ACA**	**Application to the SHBP/SEHBP**
Limitations on preexisting condition exclusion periods.	No longer an exemption for Self-funded Nonfederal Governmental Group Health Plans.	SHBP/SEHBP in compliance with preexisting obligation to provide coverage pursuant to section 4 of P.L.1961, c.49 (C. 52:14-17.28).
Requirements for special enrollment periods.	No longer an exemption for Self-funded Nonfederal Governmental Group Health Plans.	SHBP/SEHBP in compliance with requirements for special enrollment periods pursuant to section 7 of P.L.1961, c.49 (C. 52:14-17.31).
Prohibitions against discriminating against individual participants and beneficiaries based on health status (not including provisions added by the Genetic Information Nondiscrimination Act of 2008).	No longer an exemption for Self-funded Nonfederal Governmental Group Health Plans.	SHBP/SEHBP in compliance with prohibitions against discrimination, as defined, pursuant to section 4 of P.L.1961, c.49 (C. 52:14-17.28).
Standards relating for newborns and mothers.	Standards relating for newborns and mothers.	The SHBP/SEHBP provides coverage for benefits for newborns and mothers and does not apply for an exemption from this requirement as a matter of plan design and long term policy in accordance with the Mothers' Health Protections Act of 1996.[6]
Parity in the application of certain limits to mental health and substance use disorder benefits (including requirements of the Mental Health Parity and Addiction Act of 2008).	Parity in the application of certain limits to mental health and substance use disorder benefits (including requirements of the Mental health Parity and Addiction Act of 2008).	The SHBP/SEHBP applies for an exemption from mental health parity inpatient day limits. Section 2 of P.L.1999, c.441 requires the SHBP/SEHBP to provide coverage parity for biologically based mental illnesses. The statute does not require the SHBP/SEHBP to provide coverage parity for non-biologically based mental illnesses.

[6] P.L.1995, c.138 (N.J.S.A.17:48-61 et al.) requires health insurers, in any policy that provides maternity benefits, to provide coverage for a minimum of 48 hours of inpatient care following a vaginal delivery and 96 hours of inpatient care following a cesarean section for a mother and newly born child in a health care facility licensed in this State. The policy is not required to provide for a minimum of 48 hours and 96 hours, respectively, of inpatient care unless that care is determined to be medically necessary by the attending physician or is requested by the mother. Self-funded entities such as the SHBP/SEHBP, which are not subject to the requirement of this statute, are subject to the requirements of the federal "Newborns' and Mothers' Health Protection Act of 1996," Pub.L.104-204 (29 U.S.C. s.1185), which are comparable to this statute.

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Required coverage from reconstructive surgery following mastectomies.	Required coverage from reconstructive surgery following mastectomies.	The SHBP/SEHBP has provided coverage for reconstructive surgery following mastectomy since the passage of the federal mandate, "Women's Health and Cancer Rights Act of 1998."
Coverage of dependent status on a medically necessary leave of absence. (Michelle's Law)	Coverage of dependent status on a medically necessary leave of absence.	The SHBP/SEHBP coverage meets this federal requirement. Section 2 of P.L.1961, c.49 required the State to continue to provide coverage for members' dependent children up until 23 years-of-age. As of January 1, 2011, the SHBP/SEHBP began to provide coverage for members' dependent children up to 26 years-of-age pursuant to the ACA.[7]

Source: Department of Health and Human Services, Office of Consumer Information and Insurance Oversight, September 21, 2010; Divisions of Pensions and Benefits, New Jersey Department of the Treasury.

Loss of Grandfathered Status

The SHBP/SEHBP lost its grandfathered status as of June 28, 2011 resulting from the enactment of P.L.2011, c.78 (Pension and Healthcare Reform) because it revised the employee health care coinsurance provisions, employer contributions, and made plan design changes that altered the scope of benefits provided at new coinsurance levels which was not consistent with the ACA. Consequently, the SHBP/SEHBP is required to implement the health reform provisions of the ACA that apply to non-grandfathered plans that it had not already implemented, as of January 1, 2012, the first plan year subsequent to losing grandfathered status.

Non-Grandfathered Health Plans

Under the ACA, non-grandfathered group health plans and health insurance issuers are required to provide benefits for certain health care reform provisions that do not apply to grandfathered plans including, but not limited to, coverage for preventive health services and patient protections. Preventive health services include: (1) evidence-based services for adults, both men and women, including, but not limited to, blood pressure and cholesterol screenings, diabetes screenings for hypertensive patients, various cancer and sexually transmitted infection screenings, and counseling related to depression, aspirin use, tobacco cessation, and obesity: (2) Immunizations for routine use in children, adolescents and adults; (3) evidence-informed preventive care and screenings for infants including, but not limited to, screenings for hearing loss, congenital hypothyroidism, prophylactic medication for gonorrhea, sickle cell disease, and phenylketonuria (PKU); (4) evidence informed preventive care and screenings for children

[7] It should be noted that section 1 of P.L.2005, c.375 provides coverage for adult children of enrollees of the SHBP/SEHBP up to 31 years-of-age. However, the member incurs the premium cost for adult children between the ages of 26 and 31. SHBP/SEHBP enrollees with adult children less than 26 years-of-age on their plan pay the employee premium share only.

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including, but not limited to, visual acuity, chemoprevention of dental cavities, and obesity; (5) evidence-based preventive care and screenings for adolescents including, but not limited to, depression, obesity, high blood pressure, and HIV; (6) women's preventive health care and screenings including, but not limited to; breast cancer, cervical cancer, iron deficiency, and osteoporosis.

Patient protections include provisions regarding provider choice and emergency services to which non-grandfathered plans are required to conform while grandfathered plans are not. Under patient protections for provider choice, the ACA requires non-grandfathered group health plans and health insurance issuers to allow enrollees to choose a primary care provider or pediatrician when a plan or issuer requires designation of a primary care provider and to allow enrollees to obtain obstetrical or gynecologic care without prior authorization. Under patient protections for emergency services, the ACA requires a group health plan or health insurance issuer to provide coverage without having to obtain prior authorization (even if the emergency services are out-of-network). In addition, cost-sharing requirements expressed as a copayment amount or coinsurance rate for out-of-network emergency services cannot exceed the in-network cost sharing requirements. Table 2 provides a list of health care reforms applicable to non-grandfathered group health plans and health insurance issuers.

Table 2

Health Care Reform Provisions of the ACA Part A of Title XXVII (HIPAA) of the PHS Act That Apply to Non-Grandfathered Health Plans

PHS Act Statutory Provisions[8]	Application to Non-Grandfathered Health Plans	Application to the SHBP/SEHBP	SHBP/SEHBP Compliance
§2713 (New Section) Preventive Services.[9]	Applicable to group health plans and health insurance issuer offering group or individual health coverage.	Yes	Came into compliance as of January 1, 2012. Affected premiums beginning in FY 2013.
§2716 (Amendatory) Discrimination Based on Salary (i.e., in favor of highly compensated individuals.)	Applicable to insured health plans.	The ACA extended to insured group health plans the non-discrimination provisions (IRC 105(h)(2) that had formerly been applicable only to self-funded group health plans.	Previously in compliance under IRC 105 (h)(2) as a self-funded group health plan.
§2717 (Amendatory) Ensuring the Quality of Care.[10]	Applicable to group health plans and health insurance issuers offering group or individual health coverage.	Yes	Came into compliance as of January 1, 2012. The impact on premiums in FY 2013 and thereafter is uncertain.

[8]These provisions of the PHS Act apply to non-grandfathered health plans as of the first plan year after September 23, 2010, for calendar year January 1, 2011. They apply to a grandfathered health plan that loses its grandfathered status as the first plan year subsequent to losing grandfathered status.

[9] Requires all plans to cover preventive services and immunizations as recommended by the U.S. Preventive Services Task Force and the Centers for Disease Control (CDC) and certain child preventive services recommended by the Health Resources and Services Administration (HRSA) without any cost sharing.

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§2719 (New Section) Appeals Process. [11]	Applicable to group health plans and health insurance issuers offering group or individual health coverage.	Yes	Came into compliance as of January 1, 2012. Affected premiums beginning in FY 2013.
§2719A (New Section) Patient Protection Provisions: Emergency Services and Choice of Provider.[12]	Applicable to group health plans and health insurance issuers offering group or individual health coverage.	Yes	Came into compliance as of January 1, 2012. Affected premiums beginning in FY 2013.

The Effect of the ACA on Early Retiree Employer-Sponsored Medical Coverage

The ACA appropriated $5 billion and established the Early Retiree Reinsurance Program (ERRP) to subsidize employers[13] who maintain employment-based group health insurance coverage for early retirees and their spouses, surviving spouses, and dependents. Early retirees are those workers who retire between the ages of 55 and 64, before they are eligible for Medicare. The program was designed to address the need for early retirees' ability to access coverage for health care.

[10] Section 2717 requires group health plans and a health insurance issuer offering group or individual health insurance coverage to report annually to the Secretary of the Department of Health and Human Services with regard to the group health plan's or health insurer's 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.

[11] Health insurers are required to implement a new, independent appeals process for coverage determination and claims. According to the Division of Pensions and Benefits, the appeal process for medical and prescription drug claims will change effective January 1, 2012. 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). Normally, the decision by the IRO is binding on the plan. The types of claims that can be appealed generally include: denials, reductions in benefits, or termination of coverage.

[12] Under patient protections for provider choice, the ACA requires non-grandfathered group health plans and health insurance issuers to allow enrollees to choose a primary care provider or pediatrician when a plan or issuer requires designation of a primary car provider and to allow enrollees to obtain obstetrical or gynecologic care without prior authorization. Under patient protections for emergency services, the ACA requires a group health plan or health insurance issuer to provide coverage without having to obtain prior authorization (even if the emergency services are out-of-network). In addition, cost-sharing requirements expressed as copayment amount or coinsurance rate for out-of-network emergency services cannot exceed the in-network cost sharing requirements.

[13] According to the PPACA, the definition of employers includes: private employers, unions, and state and local governments.

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Under the ACA, funding for the ERRP was made available until January 1, 2014 or until the funding is fully encumbered[14]. To participate, a plan sponsor was required to have programs and procedures in place that generate or have the potential to generate savings with respect to participants with chronic and high-cost conditions, such as preventive monitoring and chronic disease management while controlling the participants' costs (co-pays, coinsurance, and deductibles) for high cost conditions like cancer.

According to the Division of Pensions and Benefits, the State submitted one application that covered 2010 through 2014. Due to program funding limitations, only 2010 and 2011 claims were able to get the subsidy. The plans covered were all SHBP/SEHBP plans including Horizon, Aetna, Cigna, and Medco. In FY 2011, the SHBP/SEHBP received $77.6 million for claims incurred in 2010. In FY 2012, the SHBP/SEHBP received $21 million for claims incurred in 2011. When the State initially applied, the estimated amount to be received was $87.5 million for 2010 and $150 million for 2011. These estimates did not contemplate the program running out of money so quickly. The $77.6 million in subsidies received in FY 2011 were credited against projected Plan Year 2012 costs to reduce the projected early retiree premiums. Another $21 million was received later in 2011 and will be credited against Plan Year 2013 early retiree premiums. Reducing early retiree premiums shares the savings with retirees and also reduces contributions from self-pay retirees. Table 3 below shows the distributions of ERRP credits.

Table 3

ERRP Credits Applied to Early Retiree Premiums (In $ Millions)				
	State	Local Education	Local Government	Total
Plan Year 2012	$25.0	$37.3	$15.3	$77.6
Plan Year 2013	$ 6.8	$10.0	$ 4.2	$21.0

Source: Division of Pensions and Benefits, Department of the Treasury, Responses to OLS Discussion Points, FY 2013 Interdepartmental Budget Analysis.

The Effect of the ACA on SHBP/SEHBP Retiree Prescription Drug Costs

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub.L.2003, ss. 108-173) established the Medicare Part D program (Retiree Drug Subsidy Program), to provide prescription drug coverage to Medicare retirees, and made changes to the Medicare Part C provisions governing the Medicare Advantage Program formerly known as the Medicare+Choice Program under the Balanced Budget Act of 1997. The Medicare Advantage program was created to give Medicare beneficiaries the option to receive their Medicare Parts A (hospital) and B (medical) benefits through private insurers. Medicare programs are administered by the Centers for Medicare and Medicaid Services (CMS).

[14] As of May 5, 2011 the CMS stopped accepting applications for the ERRP due to the projected level of the funds remaining for the program.

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The Retiree Drug Subsidy Program

Under the Retiree Drug Subsidy Program (RDS), plan sponsors of a qualified retiree prescription drug plan are eligible to receive a reimbursement payment in the amount of 28 percent of the allowable retiree costs in each plan year. This subsidy is typically claimed and received at the conclusion of the plan year. To receive the subsidies, plan sponsors are required to maintain prescription drug benefits that are at least actuarially equivalent to the standard coverage under the Medicare Part D prescription drug benefit. The RDS excludes reimbursements for drugs that are provided by a plan sponsor but are not covered by Part D. Reimbursements may be used to reduce retiree premiums or to maintain benefit levels. Either way, the sponsor receives the reimbursement. Table 4 below shows the Medicare Care Part D Retiree Drug Subsidy payments to the State Health Benefits Fund for FY 2005 through FY 2011. According to the Division of Pensions and Benefits, because the subsidy was in place from 1/1/2005 through 12/31/2011, the subsidy amounts for FY 2005 and FY 2011 represent payment for half of the fiscal year. FY 2010 and FY 2011 subsidy amounts are estimates, because the subsidy for Plan Year 2011 has not been finalized. Medicare Part D subsidy payments were used to reduce plan costs in the year in which the subsidy was received. This reduced the premiums for Plan Years 2006 through 20011 for Medicare Retiree coverage.

Table 4

Medicare Part D Retiree Drug Subsidies FY 2005 through FY 2011			
	Medicare Part D Subsidies	Percent of Claims Subsidized	Medicare Retiree Claims
FY 2005	$31,290,028	11%	$296,977,071
FY 2006	$64,787,358	20%	$317,893,303
FY 2007	$70,196,411	20%	$351,126,351
FY 2008	$77,950,942	19%	$400,765,365,
FY 2009	$80,904,096	18%	$446,685,350
FY 2010	$86,138,699	17%	$498,977,728
FY 2011	$46,486,465	8%	$587,011,735

Source: Division of Pensions and Benefits in the Department of the Treasury, Responses to OLS Discussion Points, FY 2013 Interdepartmental Budget Analysis.

Employer Group Waiver Plans

Employer Group Waiver Plans (EGWPs) are employer prescription drug plans also known as Part D plans for which some Medicare requirements are waived. EGWPs leverage manufacturer discounts to reduce the cost of prescription drugs to retirees each time drugs are purchased. Some public employers choose to implement EGWPs instead of RDS programs. This is because EGWPs not only provide employers with direct, "up front" subsidies, in the form of price discounts instead of reimbursement, but they also allow those that are under GASB accounting, to offset their OPEB liability by the value of the EGWP subsidy. RDS reimbursements are not allowed to be used to offset post employment benefit liabilities. In addition, EGWPs are exempt from the actuarial equivalency requirement. Hence, these plans

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are used by employers who are not able to maintain required benefit levels. For public employers, the value of the RDS was most likely equal to the EGWP, except for the additional GASB accounting value of the EGWP. According to the Division of Pensions and Benefits, after the Medicare Modernization Act enactment, the SHBP was presented with the available Medicare Part D integration alternatives. The SHBP decided to pursue the RDS over other alternatives like the EGWP. Key factors in this decision included: the same or a better financial impact for the RDS versus other alternatives; no disruption to retirees; and a lack of readiness on the part of the PBMs to administer EGWPs.

The Impact of the Affordable Care Act on the Cost of Retiree Prescription Drug Benefits

The ACA made three significant changes in the MMA affecting retiree prescription drug benefits regarding the gap in coverage that occurs between the initial annual coverage limit for the year ($2,930 in 2012) and the out-of-pocket threshold ($4,700 in 2012) in the Medicare Part D benefit structure, known as the "donut hole."[15] These changes upgrade the EGWP program to the EGWP+wrap program. Plan sponsors using either the Retiree Drug Subsidy or the EGWP can choose to adopt the EGWP+wrap program. First, the new provisions increase the federal subsidy for generic drugs in the donut hole from 7 percent to 75 percent and the federal subsidy for brand name drugs from 0 percent to 25 percent by 2020, beginning in 2011. The second significant change under the ACA was the introduction of a manufacturer's discount. Under the manufacturer's brand discount program, the ACA requires pharmaceutical manufacturers to provide a 50 percent discount on brand name drugs, there by reducing the cost to the plan sponsors by 50 percent. Third, the ACA established catastrophic coverage, a federal subsidy for retiree prescription drug expenses that becomes effective once a retiree's prescription drug expenses exceed the true out-of-pocket threshold for the year. Under catastrophic coverage, the federal government pays 80 percent, the State pays 15 percent, and the retiree pays 5 percent of the cost of their prescriptions. In addition to these significant changes, the ACA revised the basis for the growth in the "donut hole" to a different inflation index.

[15] Pre-ACA: The donut hole came into play once a retiree's and the plan's prescription drug costs for that retiree reach $2,800 during the year. All costs above the $2,800 coverage limit and up to the out-of-pocket threshold of $4,550 are the plan and the retiree's responsibility to pay. Once the true out-of-pocket prescription drug costs for a retiree exceeded $4,550 in a year, the retiree paid 5 percent of the cost of the prescription drugs and the plan sponsor paid the remaining 95 percent.

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Table 5

Medicare Part D Benefits – 2011 and Beyond			
Year	**Generic Benefit (Direct Federal Subsidy)**	**Brand Benefit (Direct Federal Subsidy)**	**Brand Discount (Mfg Discount)**
2011	7%	0.0%	50%
2012	14%	0.0%	50%
2013	21%	2.5%	50%
2014	28%	2.5%	50%
2015	35%	5.0%	50%
2016	42%	5.0%	50%
2017	49%	10.0%	50%
2018	56%	15.0%	50%
2019	63%	20.0%	50%
2020	75%	25.0%	50%

Source: Buck Consultants, The Future Delivery of Employer Sponsored Retiree Drug Programs.

The effect of these changes is to fill in the "donut hole" by providing 75 percent coverage for the cost of generics in the coverage gap from federal subsidies and up to 75 percent of the cost of non-generics in the coverage gap from federal subsidies and manufacturer rebates. One other unexpected benefit of the ACA is that the federal and manufacturer subsidies help retirees pass through the coverage gap and into catastrophic coverage at an accelerated rate because the expenditures that count toward meeting the "donut hole" threshold and limit are based on drug costs not retiree co-pays.

The Impact of the ACA on the Retiree Drug Subsidy Program

The ACA changes in Medicare Part D prescription drug subsidies that upgrade EGWPs to EGWP+wraps exceed the subsidies given through the Retiree Drug Subsidy (RDS) program, not only because of the change in the tax treatment for the RDS program, but also because the subsidies available under the EGWP+wrap program are not applicable to plans that adopted the RDS. An EGWP+wrap program provides three types of subsidies: a direct subsidy from the federal government (generic and brand benefits); a manufacturer discount; and catastrophic coverage. Under the RDS program, plan sponsors are only provided direct subsidies from the federal government on a reimbursement of approximately 28 percent of the full costs of prescription drugs in the "donut hole."

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Table 6

Comparison of SHBP/SEHBP Costs for a Prescription under the RDS and the EGWP + Wrap Programs[16]		
	RDS	**EGWP +Wrap**
Gross cost	$249.87	$ 248.91
Discounts	($ 94.97)	($113.02)
Retiree Co-pay	($ 18.14)	($ 17.75)
Rebates	($ 16.66)	($ 15.37)
Administrative Charge	$ 1.58	$ 4.34
Retiree Drug Subsidy	($ 21.66)	NA
Medicare Capitation	NA	($ 22.06)
Medicare Catastrophic	NA	($ 7.62)
Net Cost	$100.00	$ 77.43

Source: Division of Pensions and Benefits in the Department of the Treasury, Responses to the OLS Discussion Points, FY 2013 Interdepartmental Budget Analysis.

In October 2011, the State Health Benefits Plan converted, effective March 6, 2012, from the Retiree Drug Subsidy Program to the EGWP+wrap program. Actuarial reports indicate that this action reduced SHBP-State plan year 2012 costs by $22 million, a savings which was reflected in recommended premium rates. According to the division, the shift to the EGWP+wrap program from the RDS program is estimated to reduce SHBP/SEHBP annual prescription drug claim costs by $80 to $100 million per year. It is estimated that Plan Year 2012 annual prescription drug claim costs will be reduced by $83 million: $22 million for State; $50 million for local education; and $11 million for local government. For Plan Year 2013, annual prescription drug costs will be reduced by $91 million: $23 million for State, $55 million for local education, and $13 million for local government. The shift is estimated to reduce the GASB liability by approximately $10 billion, or 14 percent.

According to the division, the Plan Design committees[17], agreed to share a portion of the EGWP+wrap savings with retirees. Specifically, the Plan Design committees agreed to (1) reimburse high-income retirees' Medicare retiree premium payments, which is projected to cost the State $5 million annually and (2) to reduce the mail order generic co-pay to $5, which is projected to cost the State $10 million annually. In addition, the division indicates that for actives and early retirees, moving retirees to an EGWP+wrap program reduced the number of lives covered under the commercial (non-Medicare) agreement. As a result, commercial rebate guarantees were reduced for this population which is projected to reduce Plan Year 2012 rebates by about $6 million.

[16] According to the Division of Pensions and Benefits in the Department of the Treasury, the chart assumes that the net paid amount under the RDS is $100 and allocates the pricing components on that basis. It should be noted that this is an estimate of the average components based upon projected savings. Savings will vary based on a variety of factors-retail versus mail, brand versus generic, formulary versus non-formulary, etc.

[17] The Plan Design committees were established pursuant to P.L.2011, c.78.

Background Paper: The Effect of the Affordable Care Act on the State Health Benefits Program and the School Employees' Health Benefits Program (Cont'd)

Children's Health Insurance Program

The Children's Health Insurance Program (CHIP) was established by the Balanced Budget Act of 1997 to provide assistance to States to insure that low-income children whose parents' income level is too high to be eligible for Medicaid and whose parents cannot afford private insurance have access to State and federally subsidized health insurance[18]. The ACA requires states to extend funding for CHIP through 2015 and to maintain income eligibility levels for CHIP through September 30, 2019. The ACA provides a 23 percent increase in federal CHIP funding bringing the federal matching requirement to 93 percent for five years beginning 2014.

<u>State Option to Extend CHIP eligibility to Children of State Employees</u>

Prior to the ACA, children who were eligible for health benefits coverage under a state health benefits program on the basis of a family member's employment with a public agency of the state were not eligible to participate in the CHIP program. 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. Under the maintenance of agency condition, a state is required to demonstrate that they have been consistently contributing to the cost of employee coverage, with increases for inflation since 1997. The maintenance of agency contribution condition is met when the state expenditures for health coverage for employees with dependent coverage is not less than the amount of those expenditures in FY 1997 as adjusted by the Consumer Price Index, as specified. Under the hardship condition, a state must prove that the dependent coverage offered through a state health benefits program causes a financial hardship for families. Under this provision, if the annual aggregate premiums and cost-sharing imposed by the state health benefits plan exceeds five percent of a family's income, then child or children could be enrolled in CHIP.

According to the division, 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 this program until after the enactment and implementation of public employee health benefits reform legislation. Following the enactment of P.L.2011, c.78, increases 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 further delayed pending the outcome to the challenge to the ACA. With this challenge resolved, the feasibility of the program is currently being evaluated.

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[18]According to Appendix 2: Children's Health Coverage: 2011 Upper Income Limits listed in the 2010 CHIPRA Annual Report, New Jersey provides CHIP coverage to children whose parents earn up to 350 percent of the federal poverty line, or $78,225 for a family of four.

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